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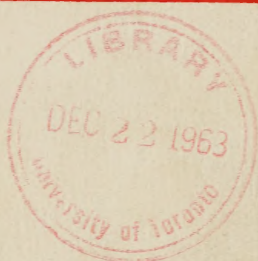
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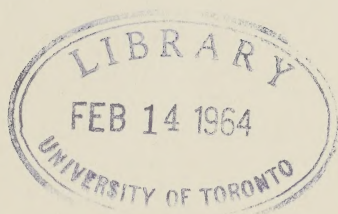


BANK OF CANADA

ANNUAL REPORT OF
THE GOVERNOR TO THE
MINISTER OF FINANCE

AND STATEMENT OF ACCOUNTS

FOR THE YEAR **1956**-60



881723



CANADA

“WHEREAS it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion: Therefore, . . .

—Preamble to the Bank of Canada Act

BANK OF CANADA

February 28, 1957.

The Hon. W. E. Harris, Q.C.,
Minister of Finance,
Ottawa.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act I am transmitting herewith my report for the year 1956, and a statement of the Bank's accounts for this period which is signed and certified in the prescribed manner.

Yours very truly,

J. E. COYNE,
Governor.

BANK OF CANADA

REPORT OF THE GOVERNOR

1956

In the first part of this Report I shall refer to those features of financial developments during the past two years which are of particular importance in a discussion of monetary policy, including those which have figured prominently in public discussion on this subject and others which may not have attracted as much attention heretofore. The remainder of the Report (commencing on page 37) consists of a more comprehensive and detailed review of economic and financial affairs in the year 1956.

For the past year and a half money and credit policy has been endeavouring to restrain to a reasonable rate of expansion a great upsurge in capital expenditures and in the volume of credit used to finance such expenditures. The inflationary pressures that developed after mid-1955, when recovery from the 1954 recession had brought the economy once more to a state of full employment, have not been fully checked. The increase in total expenditures in money terms has been greater than the increase in output in physical terms, and demand based to a considerable extent on credit expansion has been constantly attempting to increase expenditures by a still greater margin. Rising prices and costs, a large increase in imports and in the deficit in our international balance of payments, and rising interest rates, have been among the chief symptoms of the strain to which the economy has been subjected.

The present period of inflationary pressure differs from 1950-51 both in the causes of the pressure and in the measures used to restrain it. The 1950-51 inflation came suddenly and was of a world-wide character, arising out of the Korean War and a huge expansion in defence expenditures. It was marked by a large and rapid rise in prices of raw commodities as well as a 15% rise over a period of 18 months in the cost of living. Inflation came to Canada mainly from outside, but the increase in Canadian defence expenditures added to the strain and helped to determine the measures taken to meet it. Taxes were increased and consumer credit controls adopted in September and October 1950, and some direct controls were exercised over scarce materials. At the request of the Bank of Canada in February 1951 the chartered

banks withdrew from the field of term loans and agreed to an overall ceiling on the volume of bank credit. Stock exchanges raised margin requirements. Consumer credit control was tightened in March. Taxes were further increased and depreciation allowances deferred in the budget for 1951-52. Monetary policy sought to restrain credit expansion, and interest rates rose from mid-1950 until mid-1953.

In 1955-56, on the other hand, inflationary pressures grew by a cumulative process rather than by a sudden outbreak. Although most countries in the western world experienced a measure of inflation it was chiefly due to causes within each country and manifested itself more in costs of production and distribution than in raw material prices. The rise in the cost of living in North America so far in the present cycle has been about one-fifth of the post-Korean rise in 1950-51. In Canada, the chief cause of inflationary pressures was a great increase in capital expenditures, a boom in investment, particularly business investment in resource development and in fixed assets, construction, and expansion of equipment. A significant part of the total, including many of the largest projects, arose from large foreign enterprises taking the lead in developing Canadian resources with a view to export of raw materials to the country of origin of the foreign enterprise.

Special measures of fiscal policy and direct controls were not invoked in 1955 or 1956—although the development and maintenance of a substantial surplus of revenues over expenditures on the part of the federal government, in Canada and in the United States, have helped to restrain inflation. The main emphasis has been on monetary policy. Some improvements in monetary machinery have been introduced since 1951, and the experience of 1955-56 may suggest some further improvements in technique or in the structure of the monetary and banking system that will enable better results to be achieved in future.

The Expansion of Credit

The outstanding feature of the financial situation in the past year and a half has been that the demand for borrowed funds—by business corporations, provinces, municipalities, individuals and others—increased much more rapidly than the growth in the volume of new saving and in the supply of money and credit. There was consequently strong competition for borrowed funds and interest rates

rose. The competition for funds and the rise in interest rates were not caused by credit restriction in the sense of a reduction or contraction in the amount of credit available. On the contrary the money supply increased and the total volume of credit of all kinds made available was much greater than ever before.

Since the demand for loanable funds exceeded even the greatly increased supply, lending institutions have not been able to accommodate all potential borrowers in full; they have made such disposition of their funds as they chose, within the terms of any statutes governing their activities. In view of the rather frequent complaints which have recently arisen with regard to the availability of housing finance, it should, perhaps, be explicitly stated that banks, insurance companies, and all other institutions and individuals concerned with the provision of loans for this purpose are under no regulation in the nature of credit control preventing them from lending money for housing, or requiring them to reduce the scale of such lending. So-called "federal credit controls" do not exist.

It is of course likewise true that there is nothing which requires any lender to make a loan he does not want to make, or to make loans to any class of borrowers in excess of the amount he wishes to devote to that purpose, or to lend more money in any particular geographical area than he wishes to, or to lend money at lower interest rates than he finds a sufficient number of borrowers are willing to pay.

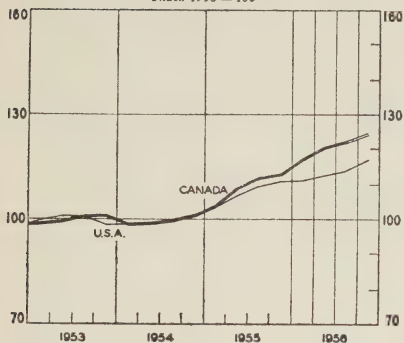
No doubt misunderstanding may sometimes arise as to why a requested loan is not made, or not made for the full amount requested. On such occasions the decision of an official of a lending institution may sometimes be incorrectly attributed to directives or controls emanating from the central bank. Directives relating to lending policy may perhaps exist within an institution itself, but they have not been issued by the Bank of Canada. Clearly, loans may be turned down or reduced because the lender feels that the borrower's project is not sound, or that any larger loan than that granted would be imprudent, or because the institution's available funds are not large enough to satisfy all would-be borrowers and some process of selection must be applied. From time to time different lenders may decide to put more money into one type of loan and less into another, especially when there are alternative outlets for their funds at attractive interest rates. The

COMPARISONS : CANADA AND THE UNITED STATES

GROSS NATIONAL PRODUCT

Seasonally Adjusted

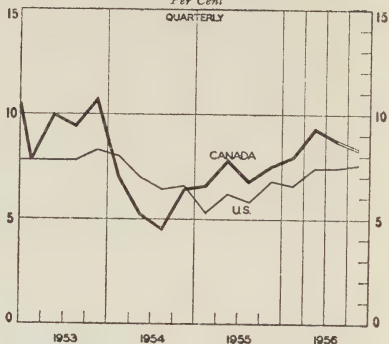
Index 1953 = 100



PERSONAL SAVING AS A PERCENTAGE OF PERSONAL DISPOSABLE INCOME

Seasonally Adjusted

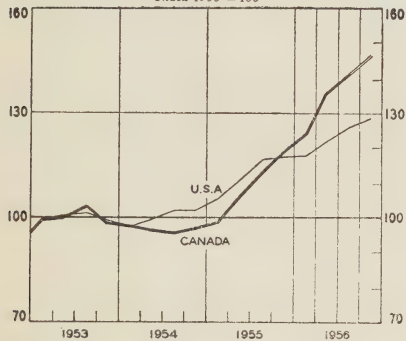
Per Cent
QUARTERLY



TOTAL PRIVATE(1) FIXED INVESTMENT

Seasonally Adjusted

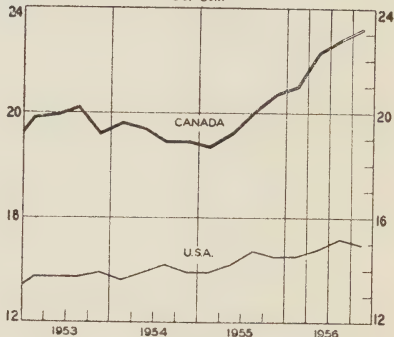
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PRIVATE(1) FIXED INVESTMENT AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

Seasonally Adjusted

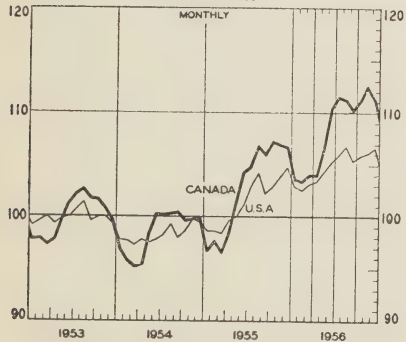
Per Cent



NON-AGRICULTURAL EMPLOYMENT

Index 1953 = 100

MONTHLY

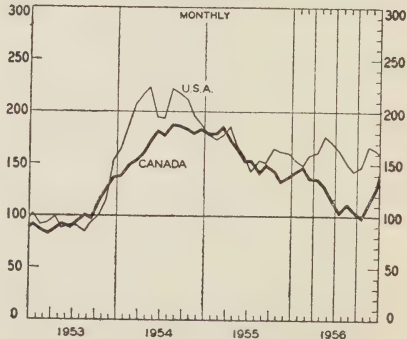


UNEMPLOYMENT

Seasonally Adjusted

Index 1953 = 100

MONTHLY

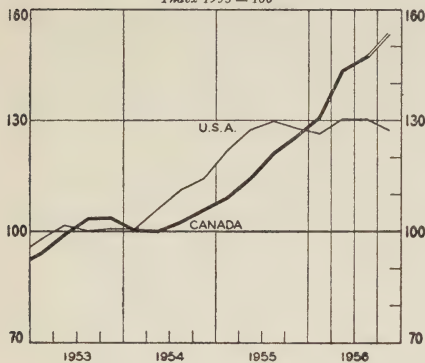


(1) Figures for Canada include government-owned business enterprises. New investment in government-owned business enterprises in the United States is relatively small.

COMPARISONS : CANADA AND THE UNITED STATES

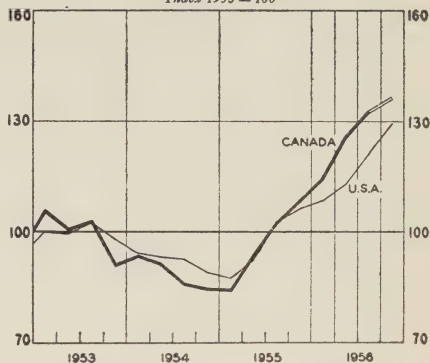
TOTAL PRIVATE(1) CONSTRUCTION

Seasonally Adjusted
Index 1953 = 100



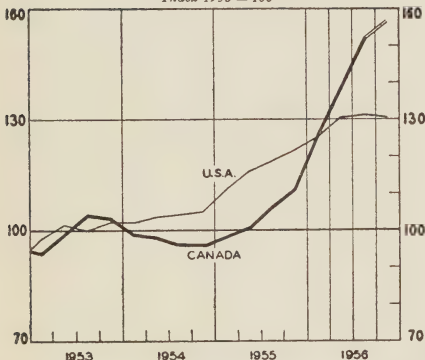
PRODUCERS DURABLE EQUIPMENT

Seasonally Adjusted
Index 1953 = 100



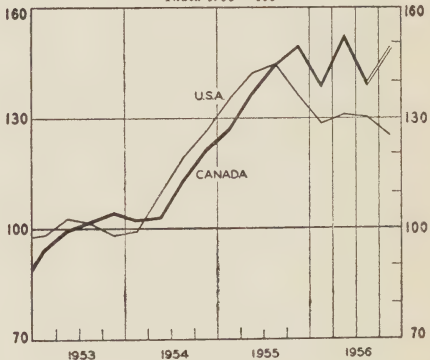
PRIVATE(1) NON-RESIDENTIAL CONSTRUCTION

Seasonally Adjusted
Index 1953 = 100



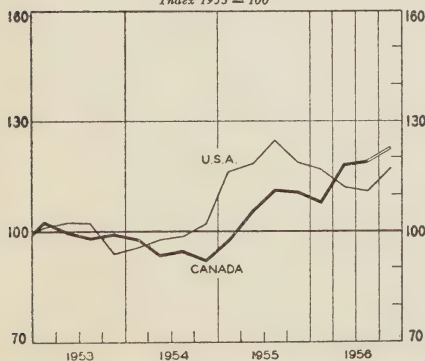
PRIVATE RESIDENTIAL CONSTRUCTION

Seasonally Adjusted
Index 1953 = 100



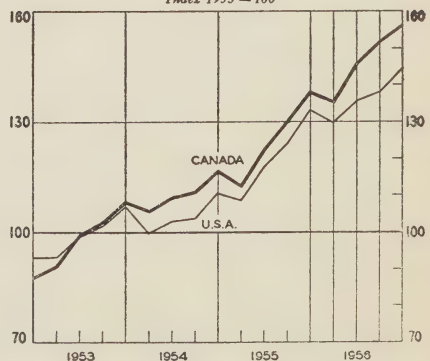
CONSUMER EXPENDITURE ON DURABLE GOODS

Seasonally Adjusted
Index 1953 = 100



CONSUMER CREDIT OUTSTANDING

Index 1953 = 100



(1) Figures for Canada include government-owned business enterprises. New investment in government-owned business enterprises in the United States is relatively small.

exercise by lenders of prudence, discretion and the right of selection among a greatly expanded number of would-be borrowers is not to be taken as evidence that the central bank is contracting the supply of credit or is controlling the allocation of credit to specific borrowers.

In last year's Report I referred to meetings held with the chartered banks in November 1955, where I had expressed the view that "the very rapid increase in the use of bank credit to finance business and personal expenditures had been well in excess of the rate of growth in the country's production which was physically possible once a condition of virtually full employment had been reached, and should not be expected to continue on the same scale. Requests for new and increased credits should be examined very carefully, and existing credit limits surveyed with a view to maintaining control over future growth. With such a policy, and the adoption of certain practices regarding term lending and liquid asset ratios, it was believed that the ordinary workings of monetary policy could moderate sufficiently the demand for and the availability of bank credit. It was not considered necessary as of that time, November, to propose any overall ceiling or limitation and it was hoped to avoid such a measure in the future. Some continuing increase in total bank loans would very likely be required, but any tendencies toward excessive use of bank credit by any category of borrower would have to be resisted."

The amount of bank loans outstanding continued to rise, mainly as a result of borrowers' further calls on lines of credit previously authorized. In addition, some obtained increases in their authorized credits, as must be expected in a growing economy. In overall terms, the expansion in general bank credit more or less levelled off in June 1956, after a further increase much greater than was thought likely in the previous November. Some categories of bank loans have shown greater increases than others, and a few have decreased moderately since mid-year. From December 1955 to December 1956 there was an increase in total bank loans of 12%. For the twelve months from June 1955 to June 1956 the rate of increase was 28%. Banks sold their previously-acquired holdings of Government securities in large volume (about \$1,200 million from June 1955 to December 1956) and at times at a loss, in order to raise funds to finance the increase in their loans and investments. A comparison of the growth in bank loans

since the previous peak in economic activity (1953) with the growth in gross national product is given in a chart on page 28.

One field of short-term credit in which, after a rapid expansion, the banks have taken special steps to limit their volume of loans, is in relation to instalment finance companies. Chartered banks have not authorized any increases in lines of credit for instalment finance companies since November 1955. Owing to the gap between availments and authorized limits, actual amounts outstanding by way of bank loans in this category continued to increase in 1956. In November, following the failure of the companies concerned to agree on measures to limit the expansion of their lending, the banks took the further step of changing authorized credit limits for the larger companies so that no further increase would be permitted to bank loans to such companies beyond the maximum point reached up to that time, except on a purely temporary basis. This limitation on the availability of bank credit has not apparently affected the ability of the companies concerned to obtain funds from other sources.

Throughout 1956 the chartered banks continued to make substantial advances by way of insured housing loans, although commitments for new investments of this character progressively decreased. The total of new approvals of housing loans by banks in 1956 was about half as great as in 1955, and by the year-end the banks had very largely withdrawn from this field of lending. Long term investments made from and limited by funds accruing from the growth of savings deposits are in quite a different category from credit expansion in the form of current or demand loans to businesses and individuals, which may reach excessive proportions. As discussed later, the financing of such credit expansion through the use of funds arising from savings deposits, both directly and from the sale of Government bonds in which savings deposits previously received had been invested, has been one of the less predictable and less stable features of monetary developments over the past two years.

In addition to loans by banks there has been in the past two years a great increase in the amount of loans and investments made by various lending institutions and individuals. In 1955 and again in 1956 there was an increase in the amount of credit available in almost every field of lending. Provincial governments, municipalities and school commissions, house builders, industrial

enterprises, merchandisers, public utilities, and consumers—all borrowed more money in 1956, obtained more credit, than in any previous year, though in some cases not as much more as they would have liked. The allocation of the increased total of credit among them was freely determined by negotiations between borrowers, lenders, spenders, savers and intermediaries without any regulation other than that normally applicable to the operations of different kinds of institutions. Some difficulties have assuredly arisen in the course of the intense competition—one might almost say scramble—for borrowed funds during the past twelve to eighteen months. These difficulties arose in the process of a free and unrestricted competition for a larger, not a smaller, supply of loanable funds, that is, in a period of expansion of credit, not contraction.

It might perhaps be argued that a greater degree of restraint on the rate of credit expansion should have been exerted by the monetary authorities. Reasons why this did not appear to be feasible in the circumstances are discussed later. Certain forms of credit proved to be not amenable to monetary influence. What was in fact accomplished was to cause the expansion of total bank credit to slow down and taper off, until by the latter part of 1956 it had more or less been brought to a halt in overall terms, but at a considerably higher absolute level than might have been anticipated or desired.

Economic Expansion versus Inflation

The object of economic policy in the world of today is to promote high levels of economic activity and employment with stability of prices—to facilitate economic growth at the highest rate that can be sustained for years at a time without endangering the stability of the currency or the cost of living. A hectic attempt to expand too fast is inconsistent with these objectives, and is also self-defeating. In addition to promoting inflation, it is bound to create excesses and distortions, overcapacity in some fields and deficiencies in others, and to end in a recession or depression which brings expansion for a time to an end. The greater the excess of attempted expansion over that reasonably attainable, the sooner will the recession arrive and the worse will be its rigours and difficulties of adjustment.

A policy of resistance to inflation is designed not to prevent economic growth but to increase it, by prolonging the period

in which conditions favourable to growth may continue, and by discouraging the development of conditions, such as unsound credit practices and mounting prices and costs, which interfere with smooth and continuous adjustment to changing circumstances in a growing economy.

The evils of inflation need no elaboration. Its effect is to restrict personal consumption, at a time when more goods and services are being used for capital investment, or war, or government deficits, or for the creation of an export surplus, than can be provided by voluntary saving, i.e. voluntary abstention from consumption, from the spending of income. Inflation forcibly restricts consumption by exacting the greatest sacrifice from those least able to bear it. It sets up many social and economic stresses, and it feeds on itself—the so-called spiral of inflation of prices and costs.

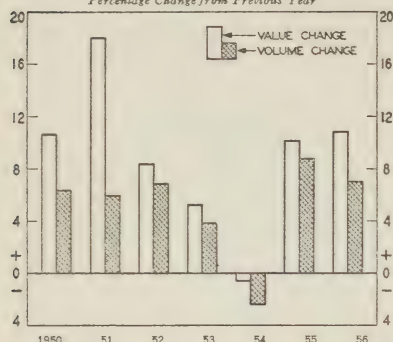
The endeavour to maintain stability of prices in conjunction with economic growth, to achieve expansion without inflation, depends for its success on the attitudes and activities of all members of society. In the field of collective social action, one of the objects of fiscal policy is to act as a stabilizer, as well as to encourage an environment favourable to growth. Even without special measures of fiscal policy to provide incentive to or discouragement of particular areas of activity, the progressive income tax to some extent opposes excessive tendencies towards inflation or deflation, absorbing part of the increase in incomes when prices and income are rising, and taking less money out of incomes at a time of a decline in prices and income. The operations of unemployment insurance have an automatic stabilizing influence in the economy, or as some would say act as a “built-in stabilizer”; both the volume of premium receipts and the volume of benefit payments vary in such a way as to offer some resistance to inflationary or deflationary developments.

Monetary policy like fiscal policy is intended both to encourage growth and to act as a stabilizing factor. It operates in part automatically, but also by the exercise of judgment on the part of the monetary authorities. The endeavour must be to find under varying circumstances the appropriate relationship between money supply and the rate of total spending in the economy, so that tendencies towards imbalance (in either direction) between

CANADIAN ECONOMIC STATISTICS

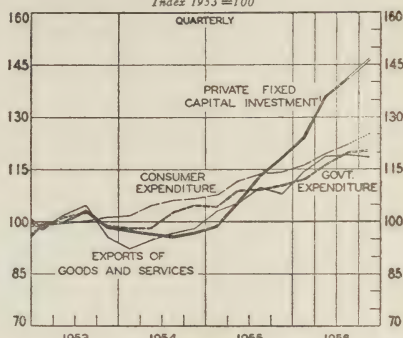
PERCENTAGE CHANGES IN VALUE AND VOLUME OF GROSS NATIONAL PRODUCT

Percentage Change from Previous Year



GROSS NATIONAL EXPENDITURE

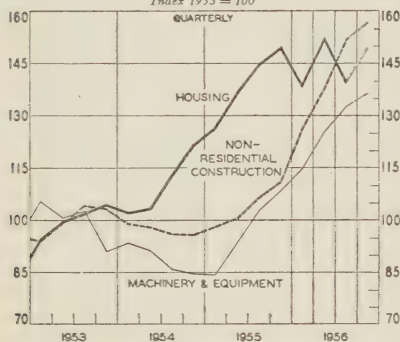
Indexes of Components
Seasonally Adjusted
Index 1953 = 100



(1) Includes government-owned business enterprises.

PRIVATE FIXED CAPITAL INVESTMENT(1)

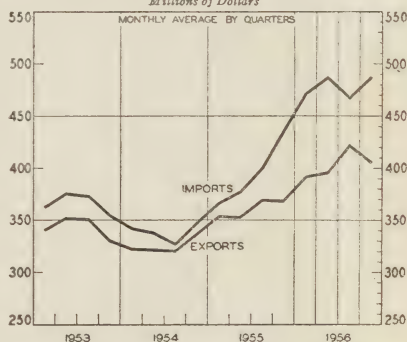
Indexes of Components
Seasonally Adjusted
Index 1953 = 100



(1) Includes government-owned business enterprises.

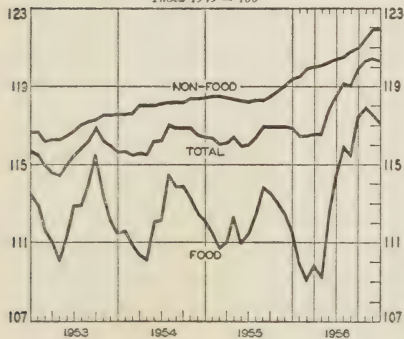
COMMODITY EXPORTS AND IMPORTS

Seasonally Adjusted
Millions of Dollars



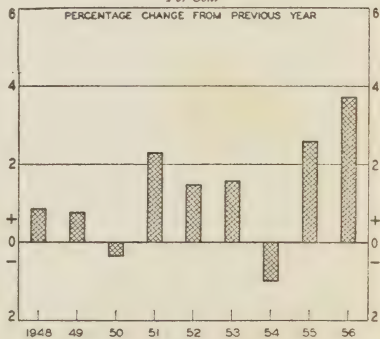
CONSUMER PRICES

Index 1949 = 100



PERSONS WITH JOBS

Per Cent



saving and investment, between capacity output and total spending, and towards fluctuations in the average level of prices, will be met by opposing tendencies, particularly through the medium of changes in interest rates and of restraint on or encouragement of short-term credit expansion.

Excessive Total Spending

During 1956 the Canadian economy was subject to serious inflationary pressures. While physical output expanded by the unusually large increment of 7% over 1955, the money value of expenditures on goods and services grew even more rapidly. As it turned out, the dollars being spent could only be matched with goods and services by having both a great increase in imports, which doubled the balance of payments deficit to a record total of \$1,400 million, and by a general marking-up of prices, which amounted to some 4% over-all.

This rise in prices took place notwithstanding the large increase in output, notwithstanding the addition to physical supplies through the large increase in imports, notwithstanding the degree of monetary tightness that developed, and notwithstanding the restraining effect of a rise in the exchange value of the Canadian dollar which more than offset the effect on Canadian prices of the contemporaneous increase in general price levels abroad.

While average Canadian prices rose 4% during 1956, the increase in costs was about 6% in the field of business fixed investment, where pressure of demand was greatest. By December the consumer price index was 3% higher than a year earlier, the rise having started in May. During the year the exchange value of the Canadian dollar rose about 4%, a movement which exercised a restraining effect on prices in Canada. While there is a time-lag in some of the price effects of changes in exchange rates, I have no doubt that, if this exchange rate movement had not occurred, the rise in the cost of living in Canada in 1956 would have been greater than that actually experienced, and considerably greater than the rise in the cost of living in the United States. This point may be illustrated in another way, as follows: An American living in Canada on a pension or other fixed income payable in U.S. dollars found his effective cost of living increase by 7.2% from December 1955 to December 1956. Canadians

with incomes in Canadian dollars found the overall cost of living rise by 3.0%. Americans living in the United States experienced a 2.5% increase in their cost of living during 1956.

A rise in the consumer price index of 3% in a period of seven months is disturbing, and would certainly be dangerous if it were to continue at the same pace. A continuation of inflationary pressures in the economy, particularly in the field of capital investment, would put additional strength into the cost-price spiral. If there should occur a reduction in the exchange value of the Canadian dollar in 1957 this would also bring in its train further increases in the Canadian price level, unless it took place at a time of declining prices abroad.

Total expenditures on goods and services of all kinds, including capital expenditures, personal consumption expenditures and government expenditures, were approximately \$29.7 billion in 1956. This was about \$1.2 billion more than the same goods and services would have cost if domestic prices had remained at the average 1955 level and may be regarded as a measure of the degree to which total expenditure was excessive in the sense that it outran the increase in production plus imports. (As already stated, external prices did not affect the general Canadian price level because of the movement of the exchange rate.) I believe that total spending of all kinds in 1956—the combination of capital expenditures, personal consumption expenditures and government expenditures, domestic expenditures as well as expenditures for imports—was at least \$1 billion greater than would have been desirable from the point of view of general stability and sound economic growth.

The physical limitations on the possible degree of real expansion in output do not give way to the pressure of excessive purchasing power based on credit expansion. What gives way is prices, and the balance of payments. Once a condition of full employment has been reached, the annual rate of increase in output in real terms is of necessity limited to an amount which is determined by the increase in the labour force compounded by the increase in average productivity for the economy as a whole. Special factors may permit an abnormally large increase in output in a particular year, such as (1) that the economy was depressed in the preceding year with unutilized resources waiting to be called

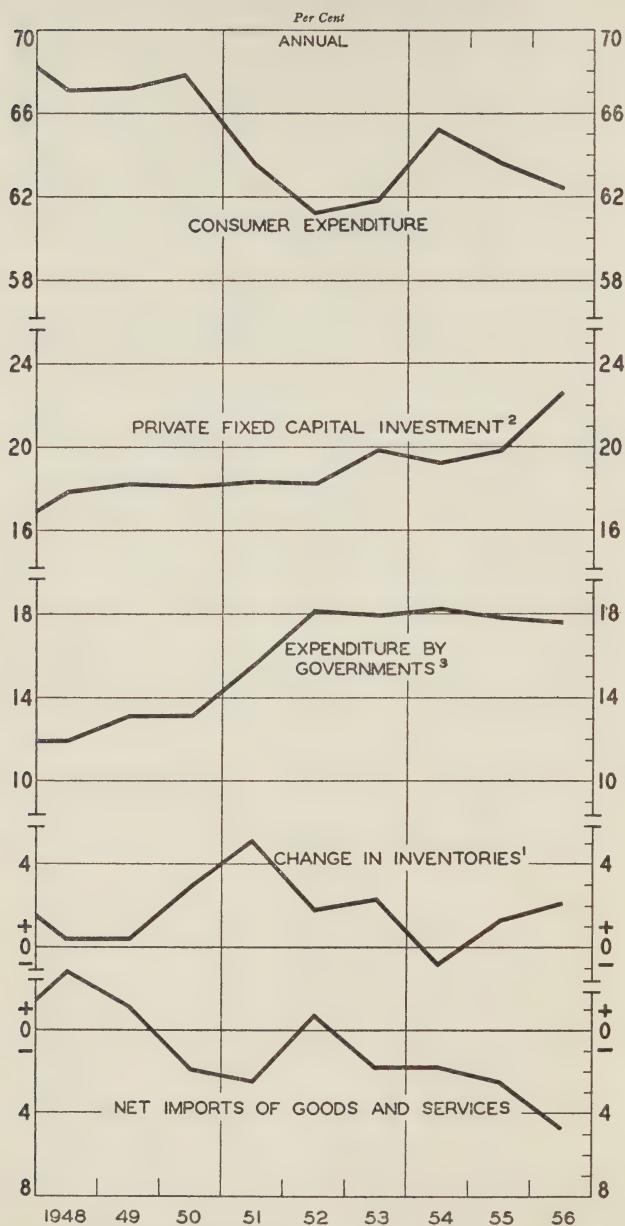
into use, which was the situation in the first part of 1955 and affects comparisons between 1955 as a whole and 1956; (2) that an abnormally large increase occurs in the labour force through a substantial rise in immigration or through the entry or re-entry into the labour force in large numbers of retired workers or married women, etc.; (3) that for some reason productivity increases for a short period at more than the long-term average rate; (4) that special factors such as weather conditions produce a substantially higher grain crop than in the previous year. All these conditions except perhaps number (3) appear to have affected the comparison of output in 1956 with 1955 to a degree that it would be unreasonable to expect to be duplicated in 1957 as compared with 1956.

When capital investment and other forms of spending tend to outrun the physical increase in production, the result in terms of price rises and increased imports must follow as the night the day. The present level of the excess of imports over exports may be regarded from some points of view as undesirable, but it must be recognized that any drop in the net deficit in the current account of the balance of payments, unless accompanied by a drop in total expenditures in the economy, would result in domestic resources being subjected to greater pressure. On the other hand, continuation of a large balance of payments deficit must itself be regarded as a symptom of an excess of total demand over supply available from domestic resources, even if particular sectors of the domestic economy might be under-employed for a time. In the early weeks of 1957 the deficit is running at a higher rate than in the corresponding period in 1956.

Capital Expenditures

The inflationary pressures that were at work in 1955 and 1956 were not the result, at least in North America, of those dynamic factors which have been most apparent in other inflationary periods. They did not arise from war or the aftermath of war: defence expenditures, though large, have not increased in recent years. The national governments in Canada and the United States have not been running large deficits: on the contrary they have had overall surpluses of revenues in excess of total expenditures both current and capital. Although certain forms of con-

COMPONENTS OF GROSS NATIONAL EXPENDITURE⁽¹⁾ AS PERCENTAGES OF TOTAL



(1) After inventory valuation adjustment.

(2) Includes government-owned business enterprises.

(3) Expenditure on goods and services by all governments, including government capital outlay other than by government-owned business enterprises

sumer expenditure financed to an increasing degree by a particular kind of credit expansion have contributed to the inflationary pressures, consumer expenditures in total have not been a major factor: consumers have not gone on a "spending spree" on the whole, and the rate of personal saving as a percentage of income has increased since the middle of 1955. And the central banks have not, I trust, behaved irresponsibly: certainly there have been few if any voices declaring that monetary management has erred to a major degree on the side of "easy money". Rather, the dynamic factor, the factor showing the greatest change over the past two years, and the cause of the recovery turning into a boom, has been a tremendous upsurge in the rate of capital investment, that is, of expenditures for capital goods and for construction of all kinds, but mainly for the expansion of industry and the development of resources. This has been even more true of Canada than of the United States. A multitude of Canadians and non-residents alike have found projects of economic expansion which all seem justifiable, useful, and potentially profitable, but which in the aggregate have been more than could be accomplished all at the same time.

In February 1956 the Department of Trade and Commerce published its annual survey of private and public investment intentions, that is of the planned level of capital expenditures on new construction and for machinery and equipment. The figure indicated was \$7,500 million, a rise of 21% over the actual amount spent in 1955. The Department concluded that "the accomplishment of a capital expenditure programme of the magnitude planned would place a considerable strain on the available supplies of labour, materials and investment funds. Only with a combination of unusually favourable circumstances does it seem likely that such a programme could be accomplished. It is possible, however, that rising costs will tend to maintain the level of dollar outlays even though, in physical terms, the programme should fall short of expectations." A revised survey published by the Department in July showed an intended total of expenditures of this character amounting to \$8,000 million, which the survey said "appears to be too large to be physically attainable in the present year".

At this time the Bank of Canada announced that in view of the heavy program of capital expenditures being undertaken by private

industry, it would delay for one year, i.e. until October 1958, the completion of its new building in Toronto on which work had started the previous November. It was stated that arrangements had been made to stretch out the construction programme and carry it on at about half the pace called for by original plans. In commenting on this action I expressed the view that "it would be impossible for a total program of \$8 billion in construction and additions to machinery and equipment to be carried out this year without a substantial rise in costs. Physical resources and facilities could not take care of the requirements of a programme of that size. To avoid a competitive bidding up of prices and costs, a number of proposed projects would have to be postponed or, as in the case of the Bank's own building, stretched out over a longer period of time than the original plans contemplated. In addition to easing the strain on resources in 1956 and 1957, the postponement of various development programmes would have the further value of ensuring the continuation of a large volume of activity into 1958 and later years." In the event, total dollar outlays for capital expenditures are now estimated by the Department as having reached \$7,900 million, including a substantial element of price increase. The physical programme was not accomplished, but the attempt to carry out so large a programme contributed greatly to the rising trend of prices and costs throughout the economy.

Total capital expenditures including housing, business investment in plant and equipment, investment by government owned enterprises such as railways and hydro-electric systems, government expenditures on highways, structures and equipment, and investment in inventories, have risen much more than consumption expenditures or ordinary government expenditures for goods and services. Capital expenditures have increased much more in Canada, and require a greater proportion of gross national product, than in most other countries. It is solely for this reason that foreign capital has been required to augment Canadian savings and a large excess of imports over exports has developed. The net deficit in the current account of our balance of payments, and the correspondingly large net borrowing from abroad, are the measure of the shortfall of new savings in Canada as compared with total actual capital expenditures.

Foreign Borrowing

The rate of personal saving out of income has increased since mid-1955, and is higher in Canada than in the United States and many other countries. Even so, the demand for the use of savings for investment has increased still more, and has had to draw on the savings of other countries (where interest rates have also risen sharply) to provide a significant part of the goods and services needed to carry out a capital investment programme on a scale too large for our own resources. I emphasize that it is the savings of other countries in the form of goods and services that we have drawn on; merely borrowing money would be of no significance in this connection—the money has to be spent abroad on goods and services if it is to make a contribution to carrying out the physical investment programme in Canada.

When a Canadian borrows United States dollars or other foreign currency, he may want to pay for imports of goods himself, though this is not the usual case. Usually he borrows foreign currency in order to sell it for Canadian dollars; for this purpose he must find someone who already has Canadian dollars and is willing to exchange them for foreign currency. Similarly a foreign company wanting to establish a plant or develop a mine in Canada must persuade an existing holder of Canadian dollars to accept foreign currency in exchange. After allowing for those cases of Canadians desiring foreign currency in order to make an investment abroad, the net accretion of foreign currency to Canadians through capital transactions can only be wanted for the purpose of buying goods and services abroad.

Since every "import" of foreign currency must be exchanged for Canadian dollars out of the existing supply in private hands, it is evident that borrowing abroad does not expand the total supply of money in Canada. (We have a free exchange market and neither the government nor the central bank is obligated—as they are in many countries—to buy all the foreign currency coming on the market at a fixed rate of exchange, paying for it with domestic currency. In fact, fluctuations in the official foreign exchange reserves are small and unimportant in this connection.) It follows that it would not be "no more inflationary", as some commentators have suggested, for the central bank to expand the money supply to such an extent that provincial and municipal governments and

corporations could borrow more cheaply and in greater volume in Canada and refrain from borrowing abroad. On the contrary, such action would be extremely inflationary: it would expand the money supply whereas borrowing abroad does not, and it would not increase the supply of goods and services available for Canadian use, whereas borrowing abroad for the most part does have that effect. Neither course serves to reduce demand for goods and services desired for investment in Canada, but borrowing abroad, leading to an increase in the supply of (imported) goods and services, may help to satisfy that demand with less rise in prices. If it be said that total demand or some elements of it ought to be reduced, by some means outside the field of monetary operations, that is a separate matter to which I shall refer later.

The foregoing remarks are made by way of analysis and exposition, and not of approbation of foreign borrowing or of an excess of imports over exports. Those who borrow U.S. dollars now, at the present rate of exchange, put themselves at the hazard of future movements of the rate in the other direction. Foreign currency converted now into Canadian dollars at a discount may have to be paid back, and annual interest for many years may have to be paid, when there is a premium on foreign currency. This is a risk which borrowers should weigh against the apparent saving in interest rates through borrowing abroad. With respect to imports, as already indicated, without a large net import of goods and services from abroad the total investment programme in physical terms would have to be smaller. Whether this would be a good thing is a matter of opinion. A smaller total investment programme could be carried out with less reliance on foreign capital and on imports of goods and services, and without any necessary reduction in overall employment in Canada. Apart from physical considerations, an import surplus or balance of payments deficit of the present size is the product and symptom of an excessive rate of spending in the economy, not just of a reasonable rate of real growth. It would be disturbing to think of an import surplus of such magnitude continuing for an indefinite period.

Interest Rates and Saving

Much has been heard this past year about "tight money" and rising interest rates. The "tightness" in the money supply has not come about through any absolute reduction; there has only

been a tapering off in the rate of increase, while demand increased to a much greater degree than supply.

As a result of this pressure of demand, interest rates have shown a marked increase since the early months of 1955. By the end of 1956 interest rates on Government of Canada long-term securities were higher than in 1953. Rates on provincial, municipal and corporate securities went above 1953 levels some months earlier and the margin between such yields and the yield on Government of Canada securities has widened. Net new money raised by the sale of new issues by these borrowers increased by 80% in 1956 over 1955—clear evidence of the great increase in demand. These matters are discussed in more detail in later sections of this Report. Here I wish to point out that while the central bank did not cause the rise in interest rates, it could presumably have prevented the rise, but only by creating a further huge increase in the money supply, so that all demands by would-be borrowers would have been met at some lower level of interest rates, at the expense of a rapidly accelerating inflation of prices of goods and services throughout the whole economy.

The rise in interest rates, produced by competition among borrowers, causes some would-be borrowers to withdraw from the market or reduce the scale of their borrowing. It also leads to an increase of saving, that is, voluntary restriction of spending by those able and willing to take such action. Some save in order to pay off debts previously incurred and free themselves from the expense of paying interest; some save in order to buy securities at attractive yields; some save in order to carry out next year, or later, a spending programme that would have required borrowing this year; millions of people may increase their savings almost without knowing it, through the increase in interest credited to their savings accounts or to the value of their life insurance policies. For every borrower there are many lenders—because a great part of the lending is done by banks, insurance companies, pension funds and other institutions whose job is to invest to best advantage the funds that have been entrusted to them by millions of Canadian citizens, mostly of modest means. The man of wealth invests his own funds, often in corporate stocks; the man of the middle or low-income range does most of his investing indirectly through the institutions mentioned.

To the extent that additional saving can be achieved, the pressure of demand from those wishing to make capital expenditures on an increased scale can be satisfied without increased reliance on imports and without further price inflation. Inflationary pressures can also be reduced by discouraging some capital expenditures so that demand does not expand so fast. The competition for borrowed funds operates to discourage some would-be borrowers.

If there were no need to compete for borrowed funds, if all would-be borrowers were provided with all the money they wanted, the resulting competition for goods and services, unrestrained by monetary considerations, would likewise result in a number of would-be spenders dropping out of the race. Not all could be satisfied, for the supply of goods and services is limited by physical factors. In this case, however, the selection of successful and unsuccessful claimants for supplies would be accomplished by means of a precipitous rise in prices and costs, to the great disadvantage of others in the community.

✓ Not all persons making or wishing to make capital expenditures are borrowers. Many by their personal or corporate savings supply all or part of the funds they require and, in effect, exchange goods and services they might otherwise have consumed, for goods and services required for their capital project, be it a new home, or a factory, or a school, or whatever. On the other hand, not all who save wish to make capital expenditures; it is necessary that their savings should be made available, voluntarily and for a sufficient reward, for lending to those whose capital projects exceed their own savings. Unless this can be carried out on a sufficient scale, there cannot be full employment of available resources. The medium for the transfer of savings from savers to investors is money, and credit extension based on money. It is important, therefore, that the supply of money be adequate—which means under normal conditions of economic growth that it should increase from year to year—but that it should not be so large as to permit credit expansion to outrun the accumulation of new savings. Money and credit not based on real saving have no real value for the community as a whole, and since one unit of money in one man's hands or bank account is indistinguishable from another unit of money in another man's hands or bank account, the worthless element in an excessive supply of money and credit dilutes the real value of all units of money in every-

one's hands and bank accounts, and of all money payments to be received in the future.

The monetary policy which has been followed in Canada for the past two years has been designed to provide increasing resistance to the continuing expansion of credit, to encourage increased saving, and to offer some discouragement to increased borrowing. In the face of the tremendous increase in the demand for credit, this policy has, so far as it went, had the effect of restraining the rise in Canadian prices, in the cost of living, and in the costs of production of export industries and of domestic industries alike. Any significantly greater expansion of money and credit than that which has in fact taken place would have given greater leeway to inflationary pressures and a further climb up the cost-price spiral would have ensued.

Problems for Monetary Policy

The job of a central bank is to manage the money supply in such manner as to contribute both to economic growth and to stability of prices. It can make its contribution, and use its influence, but it cannot ensure the total achievement of either objective. As expressed in the preamble to the Bank of Canada Act, the role must be that of "mitigating fluctuations" in a normally free economy where actual decisions, on production, distribution, consumption, saving and investment, must be taken by the millions of individuals and all the various governments, business enterprises and institutions that make up the nation.

It is doubtful if monetary policy can be expected by any reasonable degree of severity in its application to prevent price inflation entirely in the face of pressures of the nature and degree experienced last year in Canada and in many other countries. Monetary operations must be elastic rather than rigid. No one, particularly in the early stages of a boom, can choose some particular moment at which to decide that inflationary dangers are present without doubt and in dangerous degree. An upward trend in economic activity may prove short-lived and be succeeded by a downward trend for reasons which can be discerned, if at all, only some time after the event. The question at issue is always one of degree and of the probable continuation as well as direction of discernible trends.

Since it is the duty of the central bank to resist excessive tendencies towards either inflation or deflation in the economy, it has

sometimes been described as being required to "lean against the wind". Perhaps a more accurate description would be to say that in seeking to act as a stabilizing factor in relation to the total rate of spending in the economy, the job of the central bank is to yield somewhat to the wind but offer increasing resistance. This is particularly noticeable in a time of rising rate of spending, with a growth in the demand for money, which a central bank will normally satisfy in part, but only in part, and satisfy to a progressively smaller degree if the demand for money continues to grow at a faster rate than the rate of increase in physical output.

There can be tightening of money even with an increase in supply, or easing of money even with a contraction of supply, for tightness and ease are relative conditions depending on demand as well as supply. The degree of relative tightness or ease usually is affected much more by changes in demand than by changes in supply, for fluctuations in demand are larger and more frequent and take place more quickly than is or could be the case with changes in supply.

While the central bank can influence the quantity of money (currency and bank deposits), there is no fixed relationship between the quantity of money and the rate of spending. At any given moment a varying proportion of the money supply is inactive, lying in dormant deposits, but capable of being activated if sufficient incentive is offered. Rising interest rates and increased efforts by would-be borrowers cause the owners of previously inactive deposits to lend them to those who want to make capital expenditures, or other expenditures. The degree of quantitative restriction that would be needed to overcome the increase in "rate of turnover" of deposits is very great in the early stages of a boom (when it is most difficult to adopt a really rigorous policy) but the scope for further activation of inactive deposits diminishes over a period of time.

It might be said that by making money sufficiently "tight" the central bank could cause such intensification of competition for a limited supply of loanable funds as to result in the withdrawal of many more would-be borrowers than hitherto, to the point where no excess demand would remain. There were several reasons why such a degree of monetary restraint could not be considered feasible

in Canada in 1956, and why the degree of restraint that did seem feasible did not limit credit expansion as much as would have been desirable.

One reason arises from the fact that the more intensive the competition for loanable funds—whether made more intensive by an increase in demand for money or by a decrease in the supply of money—the greater will be the rise in interest rates. While there were periods of falling interest rates in 1956, the overall rise during the year was in the circumstances about as large and as rapid as could be digested without upsetting financial markets and investment practices upon which the successful financing of provincial, municipal and corporate capital expenditures depends, as well as housing finance. The maintenance of orderly conditions in financial markets, and the avoidance of a serious disruption of the flow of funds from savings to investment, is a responsibility of a central bank, both in the interests of economic growth and in the interests of government finance and the government securities market through which (by buying or selling securities) the central bank is able to regulate the money supply. Accordingly, at times when selling appeared in volume in the government securities market and bond prices were falling, the Bank purchased securities to moderate the rate of movement in prices and yields. At other times, when there was buying demand in the market, securities were sold with a view to offsetting the increase in money supply occasioned by the previous purchases. On balance the Bank was a purchaser during the period of falling bond prices. In 1956 its holdings of Government securities increased by \$10 millions (par values). Its net purchases of securities in the market were many times this figure. Sales to Government accounts and reductions through retirement of securities at maturity dates were nearly as great as purchases in the market. The Bank's participation in the market for Government securities, in conjunction with the retirement of debt by the Government, had the effect of moderating the rise in interest rates so that the level reached was lower than would otherwise have been reached under the pressure of demand.

Finance Companies

A special case of credit expansion feeding on the process of activation of inactive deposits assumed significant proportions during 1955 and 1956, namely, a very large increase in the volume of consumer credit, particularly as financed by instalment finance

companies and small-loan companies. An increase in the amount of consumer credit outstanding means an increase in the amount of consumption in excess of income; such dissaving on the part of some is made possible because others consume less than their incomes. At a time when all the saving that can be accomplished is needed to provide resources for the capital investment programme and thereby expand productive capacity, diversion of an increasing amount of savings to finance consumption is something of an anomaly. The total increase in consumer credit in 1956 was not as large as in 1955 because in 1956 the chartered banks reduced by \$6 million their direct personal loans of this character, whereas in 1955 such loans increased by \$89 million. Other forms of consumer credit increased by \$250 million in 1955 and \$289 million in 1956, the rate of increase being particularly marked in the case of instalment finance companies and personal loan companies.

Finance companies carry on an operation which is in all essentials banking, but are not restrained by changes in monetary conditions. They are able to compete for deposits through the sale of short-term paper in the money market and to raise funds in securities markets, paying any necessary rate of interest for these purposes, for increased interest costs do not appear to deter consumer borrowing. Banks may not charge more than 6% interest on loans. Finance companies are not limited in this respect and their rates of interest or carrying charges range from 1% to 2% per month, i.e. 12% to 24% per year, or more. Some of the companies are subsidiaries of large foreign corporations and can obtain funds directly from them. Finance companies are not required to maintain reserves nor are they subject to regulation in the way that banks, life insurance companies and some other investment institutions are.

In a time of inflationary pressure finance companies tend to make credit "easier"—by requiring lower down-payments and permitting longer time for repayment, as happened in 1955 and 1956 particularly in the case of automobile financing—whereas other institutions at such times try to move in the opposite direction. By encouraging a rapid increase in dissaving (consumption in excess of income) on the part of a significant proportion of the population, a large increase in consumer credit adds to the less healthy features of a boom, and the need to pay back such in-

creased loans may well coincide with a period of post-boom recession and increase its severity. While consumer credit may be a useful adjunct of modern merchandising, large fluctuations in the volume of such credit make it a de-stabilizing factor working against the stabilizing efforts of fiscal and monetary policy. The existence of what amounts to a rival banking system, competing for deposits and short-term funds in order to make short-term loans to finance consumption (and to an increasing extent the instalment finance companies also make loans to industrial, contracting, transportation, merchandising and other businesses) without supervision or regulation, and out of step with the trend of credit policy in the regular banking system, can be a definite handicap to monetary policy during a boom, and will also have de-stabilizing effects during any recession of activity that may ensue.

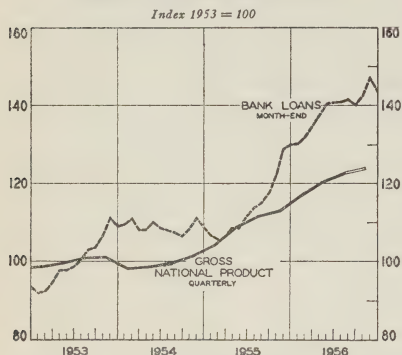
The Banking System

One reason why it is not possible to predict the effects of monetary measures with accuracy is the uncertainty, which must always exist to some degree, as to the reaction of the banking system itself to such measures. In Canada this has been more noticeable perhaps than elsewhere because of the extent to which commercial banking functions and savings banking functions are inter-mingled in the operations of the chartered banks. Over 80% of total personal savings deposits in Canada are held with the chartered banks, and the pattern of investment of such deposits has varied widely at different times. The banks may under conditions of inflationary pressure expand their commercial and general loans and other forms of short-term credit from such funds, which in other times would go into long-term investments, including (since 1954) housing loans. This has happened in each of the postwar credit expansion cycles (1947-48, 1950-51, 1952-53 and 1955-56).

The possibility of such a development has made it necessary for the central bank to regard the total volume of deposits of the chartered banks, including personal savings deposits, as forming part of the money supply, whereas the savings deposits held with specialized savings institutions (e.g. trust companies, loan companies, savings banks, credit unions) are not so regarded. At a time of strong demand for short-term credit, therefore, the central bank must endeavour to restrain any increase in total bank deposits, to such degree that the natural and virtually

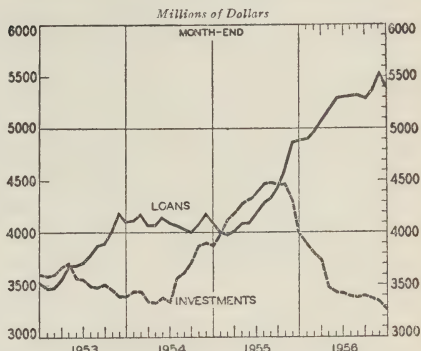
CHARTERED BANKS

**CHARTERED BANK LOANS(1) AND
GROSS NATIONAL PRODUCT(2)**



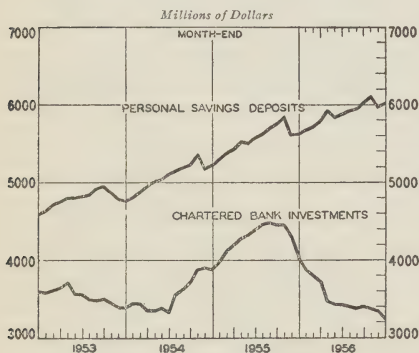
- (1) Total loans in Canada (excl. day-to-day loans and mortgage loans).
(2) Seasonally adjusted.

**CHARTERED BANK LOANS(1) AND
INVESTMENTS(2)**



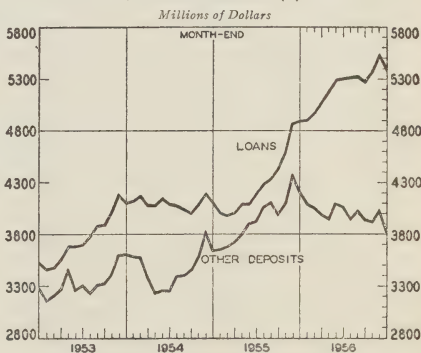
- (1) Total loans in Canada (excl. day-to-day loans and mortgage loans).
(2) Govt. of Canada securities (excl. treasury bills), other Canadian securities, and insured mortgages.

**CHARTERED BANK INVESTMENTS(1)
AND PERSONAL SAVINGS DEPOSITS**



- (1) Govt. of Canada securities (excl. treasury bills), other Canadian securities, and insured mortgages.

**CHARTERED BANK LOANS(1) AND
DEPOSITS OTHER THAN PERSONAL
SAVINGS DEPOSITS(2)**



- (1) Total loans in Canada (excl. day-to-day loans and mortgage loans).
(2) Less total float.

unavoidable increase in personal savings deposits is largely or at times entirely matched by a decline in other deposits.

Even so, the effects on credit expansion of any particular degree of restraint on monetary expansion cannot be predicted with confidence, because of the availability for commercial and general loans of funds that can be obtained by the banks by selling in large volume the Government securities in which a considerable proportion of their savings deposits had previously been invested. By this means, the greater part of the resources of the banks' savings departments have been available as required from time to time to augment the other resources of the banks' commercial banking departments when the demand for commercial loans has been particularly great. Housing loans and other investments have been the residual form of investment for the savings departments of the banks.

In other countries personal savings deposits are chiefly held by separate and specialized institutions, sometimes called building societies, sometimes called savings and loan associations, sometimes called savings banks or mutual savings banks, which make a practice of investing such funds in housing loans and in relatively long-term securities. Their objective is to invest to the best advantage in order to obtain the largest revenue consistent with prudent investment practices, and in order thereby to be able to pay the highest possible rate of interest to their depositors. Experience has shown that rarely if ever does a savings institution encounter an actual decline in its total volume of deposits, other than purely temporary or seasonal fluctuations which a reasonable degree of liquidity in its assets will permit it to meet without having to run the risk of losses through sales of long-term investments prior to maturity. The great bulk of personal savings deposits, increasing from year to year, are accordingly invested in non-commercial-banking types of loans and investments, and the central bank does not regard such deposits as part of the supply of "money" that need be directly influenced by monetary operations.

The different evolution of the Canadian banking structure has created problems relating both to fluctuations in short-term credit and to fluctuations in long-term investment. Until 1954 the Canadian chartered banks were not permitted by law to lend money on housing or other forms of real estate, presumably because they were primarily regarded as commercial banks. Because of

their efficient operation of a widespread branch system in a large sparsely settled country they managed to attract most of the personal savings deposits of the people, and these became increasingly important as the country developed. The increase in the chartered banks' savings deposits has averaged \$340 million a year over the last five years and will no doubt continue to rise in the future. Specialized savings institutions grew much more slowly, and mainly in the large cities. The kind of investments such institutions might have made were for the most part not made by the chartered banks.

In 1954 the Bank Act was amended to permit the chartered banks to make mortgage loans on new houses, loans insured under the National Housing Act. This was an important improvement in the machinery of the Canadian capital market. I believe it would be desirable if means could now be found to encourage greater stability in the rate of long-term investment by the banks in those fields where they may now operate.

It may be that specialized savings institutions, which invest their funds in housing loans and other long-term investments and are able thereby to pay higher rates of interest on savings deposits than the chartered banks, will grow in importance and attract a growing part of the future personal savings of Canadians. To maintain their relative position, the chartered banks may find it desirable and necessary to operate in respect of the resources of their savings departments in much the same way as a savings bank and use such resources to provide funds for the kinds of investment naturally associated with long-term savings.

To the extent that personal savings were segregated from the commercial lending field, they could be regarded as likewise removed from the category of "money supply". The banks' short-term credit operations would become more responsive to changes in monetary conditions. It would, of course, be the duty of the central bank—as it is today—to see that sufficient money was made available to permit an adequate volume of short-term credit to be provided through the banking system. The volume of short-term loans might not be any different from what it has been, on the average and allowing for normal growth, but a tendency towards excessive expansion in periods of inflationary pressures would be more readily restrained. Fluctuations in mortgage lending would of course be much less pronounced. The workings of monetary

policy would become more predictable and more effective. The possibility of a gradual approach towards arrangements of the sort outlined would seem to be worthy of study and discussion. Progress in such an approach would be directed towards expanding mortgage loans and other appropriate investments based on future increases in savings deposits, not reducing the volume of commercial or general loans.

Competition for Money and Resources

In any condition of an excess of physical demand over physical supply, some elements of demand must of necessity give way, lose out to others. Competition for money with higher interest rates produces fewer casualties and less social stress than unrestricted competition for goods with higher prices. Better a rise in the price of borrowed money (and so a stimulus to those who save) than a very great rise in the price of goods and housing, in the cost of schools and hospitals and public utilities, and in the costs of production of exporting and all other industries throughout the nation, plus a diminution in the value of savings held as a reserve against future needs.

Whenever there is an excess of demand over supply, and the competition for funds with which to make the desired expenditures is intense, the results in terms of who gets how much at what cost will not give satisfaction to all. Those who find themselves unable to borrow as much or as cheaply as they wish, or unwilling to pay interest at the new and higher rates, will naturally be dissatisfied. What is more important, the actual distribution of loanable funds may not seem to be the most desirable one from the point of view of society as a whole, or of large groups within it. This is a question of opinion, and a matter of public policy; in general, measures to bring about a different distribution of loanable funds than that which results from free competition under conditions of excess demand fall outside the field of central banking.

It is clear that the central bank cannot provide relief to disappointed borrowers by any simple, painless or magic process, and certainly not by further increasing the total money supply. That would simply make inflation worse—to the great disadvantage of would-be borrowers as well as others—without, however, necessarily ensuring any different distribution of funds to the benefit of any particular class of borrower. The more money

supply is expanded under such circumstances, the more prices will rise, and the more that prices rise, the greater will be the quantity of money that will be needed, by weak competitors as well as strong.

The central bank likewise cannot direct lenders to lend to persons or businesses that the lenders do not choose to lend to, or to lend to any borrower at a specially favourable rate of interest.

Governments can and in varying degree do make loans out of government finances to persons, enterprises and institutions which it is considered socially desirable to favour. Such actions have some impact on the environment within which monetary policy must operate. Loans by governments to favoured borrowers financed out of increases in taxation might have little inflationary impact, but have not been widely advocated. Loans by governments to favoured borrowers financed from other sources would insulate such favoured borrowers from competition in the loan market, but would render more intense the competition among the rest for the remaining (smaller) supply of loanable funds, and interest rates—including interest rates on government securities—would rise still more. Special programmes to make funds available to some users would add to inflationary pressures unless other users were brought under additional restraint, whether by direct controls or by the processes of the market. This is the financial counterpart of the physical fact that when physical resources are being fully utilized, an increase in the resources made available to one group in the community necessarily involves reduced availability to other sectors.

Direct controls to restrict certain types of borrowing and financing, including the provision of funds to Canadian subsidiaries by foreign enterprises, could reduce inflationary pressures, and could make possible a wider access, by those would-be borrowers who were not affected by the restrictions, to funds voluntarily loaned in the normal way. The adoption of restrictive measures of this kind on a significant scale would, of course, be a major question of social policy, involving legal powers of a compulsory character which only Parliament can authorize. Whether at any particular stage in the development of a boom the situation is regarded as serious enough in overall terms or in terms of the distribution of credit, to call for such action, is for others to decide. In view of developments of

the past two years, however, it may be useful to mention the informal steps taken by the Bank of Canada in an effort to obtain a certain amount of voluntary action to reduce anomalies that might appear to involve discrimination in the distribution of loanable funds.

The first step was taken in the autumn of 1955 when the Bank suggested to the chartered banks the desirability of refraining from making commitments for "term loans". These were defined as loans to business corporations not of a working capital character but rather to provide fixed capital, loans which would be repaid over a period of years. Housing loans were not affected, nor loans to provinces and municipalities, nor loans to farmers or to other individuals. It was recognized that term loans as defined, including direct purchases of bonds and debentures from corporate customers, were being made as a means of competition between banks to induce certain corporations to maintain their accounts with one particular bank rather than another. This involved entering into forward commitments for large loans at rates of interest which in many cases were less than it would have been necessary for the corporation in question to pay on a market issue of securities. As mentioned in last year's Report, the amount of outstanding commitments of this character when statistics first became available in November 1955 was over \$400 million. Funds to meet these commitments had to be provided out of the banks' resources in the months succeeding. The banks agreed that they would refrain from making term loans (as defined) in excess of \$250,000 to business corporations, and likewise would not purchase directly from such a corporation its bonds or debentures or other securities. The purchase of corporation securities in the market, however, whether at time of issue or otherwise, remains outside the agreement, and any bank that wishes to invest in this manner a portion of the funds accruing to it from savings deposits is able to do so to the same extent now as heretofore.

Another step taken by the Bank with a view to reducing if possible outstanding anomalies was in connection with stock market credit required for margin trading. Increases in the amount of credit used for this purpose in the United States had prompted the Federal Reserve Board to exercise its powers to increase margin requirements from the previous level of 50%, to 60% in January 1955 and 70% in April 1955, a requirement which is still in force.

As a result, the total volume of credit used for stock market trading did not significantly increase in the United States after April 1955. In Canada, on the other hand, the volume of credit so used had approximately doubled between March 1955 and July 1956. The general margin requirement according to the rules of the stock exchanges in Canada is 50%. The Bank of Canada has no power to impose or alter margin requirements. The Bank did, however, have a discussion with members of the governing bodies of the Montreal, Canadian and Toronto Stock Exchanges, in the course of which general agreement was expressed that it would be undesirable for the volume of credit used in stock market trading to increase any further under present conditions. A circular to this effect was issued by these three Exchanges to their members. By the time of the meeting, the volume of credit had declined somewhat from the July peak, and has since further declined.

Again, it became apparent during 1956 that the volume of consumer credit, particularly in the form of instalment finance, was expanding more rapidly than other forms of credit, such as ordinary bank loans, and was continuing to expand rapidly in the latter part of the year after bank credit had more or less levelled off. The Bank held discussions with representatives of the major instalment finance companies with a view to seeing whether some voluntary agreement could be reached among the leaders of the industry to prevent any further significant increase in the total volume of credit of this character. It turned out that agreement of all concerned could not be reached. It is understood that some of the companies have individually tightened up their lending terms. There had been a marked easing of such terms, particularly in the field of automobile financing where the average down-payment, expressed as a percentage of the purchase price, had progressively declined in 1954, 1955 and 1956, and the average length of term permitted for payment of the unpaid balance of the purchase price had progressively increased. The Bank also had an informal discussion with representatives of the major department stores and chain stores engaged in selling consumers' durable goods on credit, many of which do their own financing but also depend on occasion upon funds provided by the instalment finance companies. These representatives expressed the view that in their business credit terms had not been relaxed, and no agree-

ment was reached with respect to restraining further increase in the volume of consumer credit extended through these outlets. Prior to the meeting the major department stores had already agreed among themselves to discontinue the practice of selling goods without any down-payment. This was clearly a constructive step in the circumstances.

The banks have not increased in 1956 their lines of credit to finance companies and retail stores providing instalment finance facilities. By the latter part of the year the smaller finance companies and smaller stores, which for the most part have no outside source of funds except bank credit, had increased their actual bank borrowings almost to the authorized limits and so had reached the limit of their ability to increase their lending activities. The larger finance companies and retail stores, which can raise funds in the market by sale of short-term notes and debentures, are not affected to the same degree by the limited availability of bank credit. In some cases these companies are subsidiaries of large foreign corporations and have access to funds through them. The purpose of our informal discussions with these groups was to see whether they would voluntarily remove what might be regarded as discrimination in favour of large enterprises and to the detriment of small enterprises by coming to some agreement among themselves. Late in the year, as already mentioned, the banks took steps to halt the rise in their loans outstanding to the larger finance companies.

The Bank of Canada holds discussions from time to time with representatives of the chartered banks to discuss various matters affecting the monetary situation. Over the past year we have on a number of occasions asked the banks whether small business was being treated differently from larger enterprises insofar as bank lending was concerned. In all cases the general managers assured us that there was no differentiation, and I must say that very few particular instances of alleged discrimination have been brought to my attention. Undoubtedly in a period of strong competition for bank credit the standards of credit-worthiness are going to be raised and some enterprises, large as well as small, will find that they are unable to get increases in loans or even perhaps as large a loan currently as they had at some previous time. The major difficulty of small business, however, remains the same now as it always has been, namely the difficulty not so much of obtaining bank loans of an appropriate amount but of

obtaining additional equity capital and fixed capital. After a business reaches a certain size it can raise money by issuing securities on the market. Small businesses, in the nature of the case, cannot do this. In the field of "industrial enterprises", however, they may have recourse to the Industrial Development Bank, which has experienced a considerable increase in its volume of medium-term loans to small business.

In discussions with the chartered banks we have also spoken of the desirability of maintaining their interest in making insured mortgage loans under the National Housing Act. While each bank must decide for itself in the circumstances of the case how much money it can make available for this purpose at any particular period, I believe it is undesirable to see very large fluctuations in the total volume of money obtainable from the banks for housing loans.

The discussions which have been held with various groups and the suggestions which have been made to remove outstanding anomalies, either of excessive credit or inadequate credit, have, I believe, gone about as far as this kind of voluntary informal action can go, and if further results are desired some form of legally enforceable regulatory action would be necessary. In the kind of boom which we have been having, where the characteristic feature is an extraordinary increase in the volume of new capital investment by private business, it is inevitable that some people, some businesses, and some institutions should find themselves losing out in the competition for what must in any event be a limited supply of resources. The influence of the central bank is, however, necessarily directed to the over-all credit situation. There is no way open to it to have a special monetary policy for particular classes of borrowers, particular industries, or particular geographical areas. Such selective action or discrimination lies beyond the scope of monetary policy.

✓ ✓ ✓

General Economic Developments. By the latter part of 1955 the Canadian economy had recovered completely from the mild recession of 1954 and was once again operating at virtually full capacity. During 1956 demand continued to grow rapidly and, after allowance for normal seasonal movements, employment and output rose continuously. For the year as a whole output in physical terms was about 7 per cent greater than in 1955.

Compared with the average annual increase in physical output of about 4 per cent from 1947 to 1955 the growth of 7 per cent from 1955 to 1956 was very substantial. In part this was due to the fact that the 1956 grain crop was even larger than the above-average crop in 1955. In part it was due to some under-employment of resources in the early months of 1955. However, most of the extra increase in output was possible only because many persons who formerly had not been seeking work, as for example many married women and retired people, were drawn into employment by an exceptionally strong demand for manpower. About one-third of the overall increase in employment seems to have arisen in this way. A similar development occurred in the United States in 1955 but was not repeated in 1956.

The main cause of the strain on the country's physical resources was an unprecedented increase in business investment in plant and equipment. The total of such new fixed assets put in place was about 25 per cent larger in physical volume than in 1955 and there is every indication that business investment would have increased even more if additional materials and manpower had been available.

Behind this increase in business investment lay a rapid growth in the rate of development of Canada's natural resources. Through 1955 and 1956 demand from abroad for many of our primary commodities—particularly forest products and minerals—was very strong. At the same time the demands on most of our energy sources—notably crude oil, natural gas, and hydro-electric power—were growing rapidly. The tempo of resource development activity, already high, increased dramatically and investment expenditure on projects associated with resource development was about 60 per cent larger than it was in 1955. About one-half of the 1956 total of business investment in fixed assets was in the secondary and service industries. Investment in these fields increased by about 20 per cent, including an increase of about 30 per cent by manufacturing concerns.

The high rate of business investment in fixed assets stimulated demand elsewhere in the economy. Personal incomes rose rapidly and demand for almost all consumer goods and services was strong. Consumer expenditures on durable goods rose by 10 per cent, and on non-durable goods and on services by 7 per cent each. Business inventories rose appreciably. Expenditures for housing construction continued at the very high rate achieved in the latter part of 1955 (although in the latter part of the year the rate of new housing starts was declining). Government expenditures on goods and services increased, particularly capital expenditures by provincial governments.

Even with the unusually large increase in employment the supply of goods and services produced in Canada fell far short of the demand, and the economy was obliged to rely increasingly upon the use of foreign resources. Imports of goods and services rose by nearly 20 per cent, much more than the increase in exports, and our net use of goods and services from abroad increased by \$700 million to \$1,400 million. The larger current deficit in our international transactions was financed by a larger inflow of foreign capital. During the year the net inflow of capital into Canada tended to increase even more rapidly than the import deficit and the exchange value of the Canadian dollar rose by about 4 per cent.

The general level of prices in Canada rose continuously through 1956. In the aggregate, the prices of all goods and services used by the economy were about 4 per cent higher at the end of the year than at the end of 1955. This increase came about despite the restraining influence exerted by the movement in the exchange rate on the price of imported goods, which showed no increase over the year, and despite a declining price trend that developed in world markets during 1956 for several important Canadian primary commodities. Thus, to a much greater extent than in any recent year, the movement in the overall price level was in response to internal rather than external demand pressures. Prices of manufactured goods rose steadily during 1956. Price increases in the investment sector, where demand was particularly strong, were greater than elsewhere; average plant and equipment prices rose 6 per cent in the course of the year and were 10 per cent higher at year-end than in mid-1955. The period of relative price stability at the consumer level, which had prevailed in Canada since the end of the upsurge following the outbreak of the Korean War, ended in May 1956. Prices of nearly all goods and services

used by consumers increased and the consumer price index rose by 3 per cent in the last seven months of the year.

The increasing variety and frequency of price increases in 1956 was impressive evidence of the pressure under which the economy was working. In an economy operating under a system of direct controls and rationing, physical shortages of goods are the main outward sign that the economy is overloaded. In an economy operating under a flexible price system, however, if demand exceeds supply at one price level, prices move up to the point where supply and demand come into balance. Under a flexible price system price increases rather than physical shortages are the natural sign of strain.

Widespread price increases during 1956 reflected the emergence of the supply of manpower as the underlying physical shortage in the economy. In view of the pronounced seasonal variation in employment that exists in our climate the full extent of the demands on our manpower resources is most clearly revealed during the summer and autumn months. During this period of 1956 unemployment fell to 1.7 per cent of the labour force, and of those who were unemployed nearly one-half were out of work less than one month. At the same time there were widespread reports of labour shortages, and the number of job vacancies recorded was far higher than in recent years.

There were unusually large differences between developments in Canada and in the United States in 1956. Total demand in the United States was high and rising, but the pressure on resources appears to have been considerably less than in Canada. The percentage growth in total physical output in the United States was about one-third of that in Canada and the increase in prices in the United States was somewhat less than in Canada. Much of the difference is traceable to the investment area. Although the proportion of total output devoted to private investment in fixed capital in Canada was already one-third higher than in the United States in 1955, the percentage increase in private capital investment from 1955 to 1956 was more than twice as great in Canada. At the same time the rate of expenditure on consumer durable goods increased in Canada by 10 per cent while in the United States it fell by 5 per cent. In 1956 Canada was a net importer of goods and capital on a large scale while the United States was a net exporter. Charts comparing developments in Canada and the United States appear on pages 6 and 7.

General Financial Developments. The physical strains under which the Canadian economy operated in 1956 were naturally reflected in the financial sphere. On the physical side there was a strong demand for things such as business plant, equipment and inventories, community facilities, and consumer durable goods which are not usually paid for entirely out of current income. The financial counterpart of this situation was a rapid increase in the amount of money that people wanted to borrow. Among those competing to borrow the funds available were hydro-electric utilities, telephone companies, uranium and other mines, petroleum and pipe line companies, pulp and paper, iron and steel, cement and many other manufacturing companies, retail stores, finance companies, house builders, provincial and municipal governments and school boards as well as many thousands of individuals. In some cases those who needed funds for capital expansion obtained them by selling financial assets, as for example bonds which they had previously acquired.

The growth in the demand for credit was accompanied by a considerable increase in the flow of loanable funds. With wages, profits and other forms of income rising, many individuals and groups were saving more, and these larger savings were flowing through various channels (including the banks) to provide more funds to those who wanted to borrow them. The excess of receipts over payments in the Government of Canada's accounts was also supplying funds to the capital market through the redemption of Government of Canada securities. However, these increases in saving were considerably outpaced by the growth of demand and, as competition for the loanable funds available became increasingly vigorous, interest rates rose.

This development in the market for borrowed money came about not because of any contraction in the supply of funds—the supply did in fact increase substantially—but because of a more rapid increase in the demand. Borrowers collectively succeeded in borrowing considerably more money in 1956 than they did in 1955. Borrowers other than the Government of Canada were able to raise through net new issues of securities in the Canadian market about \$1,750 million compared with \$1,300 million in 1955. In addition they sold net new issues of \$500 million in foreign markets in 1956 compared with a small net retirement in 1955. The scale of borrowing from all major sources was such that the total debt of businesses, individuals and

public bodies other than the Government of Canada appears to have increased by about 15 per cent.

The growth in the competition for loanable funds reflected the fact that the supply of goods and services available was not large enough to accommodate everyone's spending plans. In 1956 the amount of resources that savers were willing to give up, though greater than in 1955 or any earlier year, tended to be less than the amount of resources that investors wanted to borrow. Since the economy was already expanding at very close to its overall physical capacity no significant further addition to the supply of goods and services available could come from domestic production. Even with large net imports of foreign resources and heavy net borrowing from foreign savers the balance was not restored. Rising interest rates were a symptom of this lack of balance between saving and investment plans.

In the circumstances of 1956, and in view of its statutory responsibilities, the central bank had no alternative but to restrain monetary and credit expansion since it was clear that any significant increase in the money supply would have added to inflationary pressures. Monetary restraint helps to contain an inflationary situation by permitting the basic lack of balance between what savers want to save and what others want to invest to work itself out in part through competition for loanable funds. The competition for funds causes temporary increases in interest rates which encourage saving and discourage excessive capital expenditure. If credit is expanded and interest rates are not permitted to increase, the underlying competition for the physical resources to carry out investment projects expresses itself entirely in greater price competition for the limited supplies of goods. As between these alternatives it is rarely if ever seriously argued that price inflation is in the national interest. Inflation operates to redistribute real income in favour of the economically stronger elements in the community at the expense of those who have less bargaining power. An inflated level of demand makes many operations seem temporarily to be more profitable than they really are, and it thereby encourages expansion of these operations at a rate which is excessive and cannot be sustained. Economic distortions of this kind are not obvious when they are taking place but they show up sooner or later and necessitate painful readjustments. Inflation tends to leave exporters at a disadvantage in selling abroad and to leave industry producing for the domestic market at a

disadvantage in competing with imports. It is not an accident that periods of inflationary prosperity are usually followed by periods of dislocation in production and employment. One of the main purposes of efforts to contain inflation is to avoid this aftermath.

Bank of Canada Operations. Throughout 1956 the operations of the Bank of Canada were directed towards keeping the chartered banks in a relatively tight cash position. The increase in the chartered banks' cash reserves was small; on a daily average basis they rose from \$863 million in December 1955 to \$890 million in December 1956, or by \$27 million. Changes in the Bank's holdings of securities and its other major accounts during the year are shown below and in the chart on the facing page. The decline in its security holdings in the early part of the year was associated with the seasonal return-flow of currency from active circulation. From December 1955 to December 1956 the Bank's holdings of Government securities (on a daily average basis) increased by \$25 million.

Bank of Canada Accounts and Chartered Banks' Cash Reserves
(average of business days—millions of dollars)

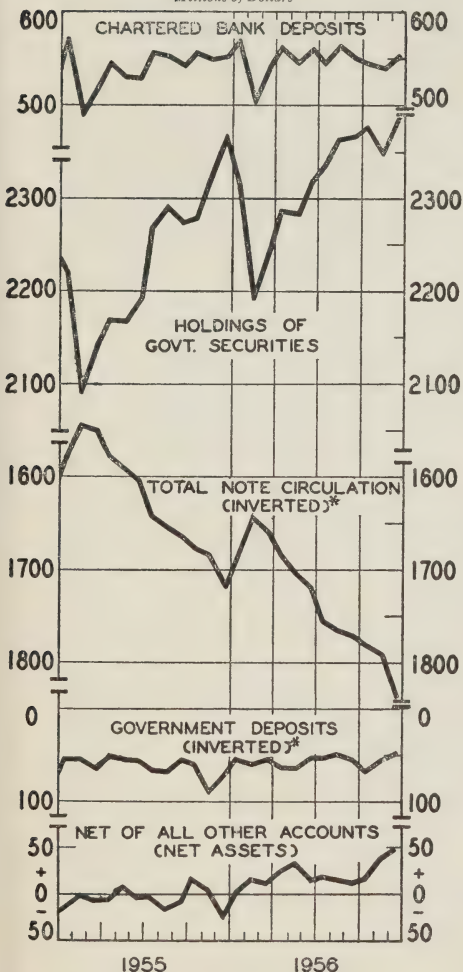
	Bank of Canada Accounts					Chartered Banks' Cash Reserves		
	Chartered Bank Deposits	Holdings of Government Securities	Total Note Circulation	Government Deposits	Net of All Other Accounts (net assets)	Deposits with Bank of Canada	Holdings of Bank of Canada Notes*	Total Cash Reserves (Statutory basis)
1955								
Dec.	552	2,365	1,718	72	-23	552	312	863
1956								
Jan.	568	2,311	1,688	56	1	568	310	878
Feb.	504	2,192	1,645	60	17	504	354	858
Mar.	542	2,246	1,660	56	12	542	299	841
Apr.	561	2,286	1,685	63	23	561	294	855
May	545	2,283	1,704	64	30	545	310	856
June	560	2,319	1,720	53	14	560	318	878
July	544	2,335	1,757	53	19	544	332	876
Aug.	563	2,362	1,766	49	16	563	338	900
Sept.	549	2,366	1,772	57	12	549	328	877
Oct.	544	2,376	1,782	68	18	544	340	885
Nov.	539	2,348	1,792	56	39	539	341	881
Dec.	553	2,390	1,838	48	49	553	338	890

*Statutory basis — i.e. average of four consecutive Wednesdays ending with the second last Wednesday in previous month.

BANK OF CANADA ACCOUNTS*

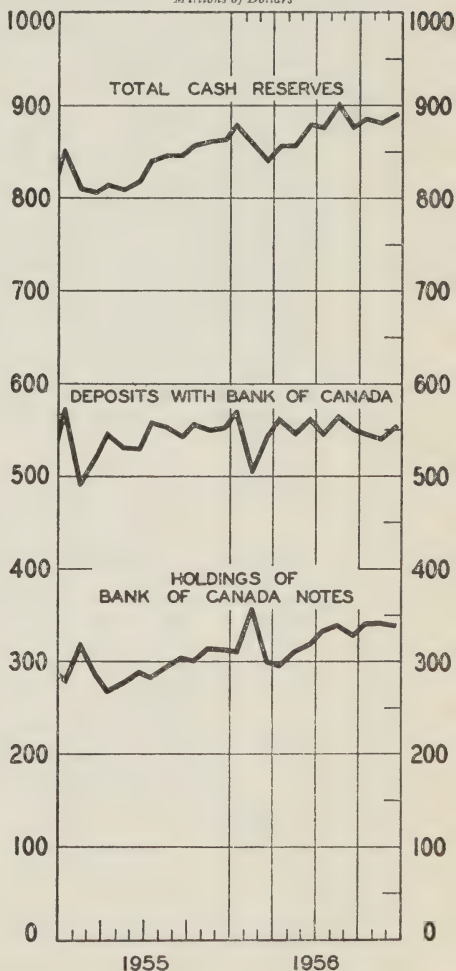
Monthly Averages of Business Days

Millions of Dollars



CHARTERED BANKS CASH RESERVES

Millions of Dollars



(*) This chart is designed to show the effect on chartered bank deposits at the Bank of Canada of changes in the Bank's other accounts. The scale of liability accounts (marked with an asterisk) has been inverted because increases in these accounts tend to decrease chartered bank deposits at the Bank of Canada.

Advances to the Chartered Banks. Although they were quite important for short periods during the year, Bank of Canada advances were not on the average a major source of cash reserves for the chartered banks. In 1956 advances to chartered and savings banks were outstanding on 105 out of 254 business days. On a daily average basis for the whole year advances were \$8 million as compared with total cash reserves of \$873 million. The maximum amount of advances outstanding on any one day was \$60 million.

The purpose of Bank of Canada advances to the chartered banks is not to provide loanable funds to the banking system but simply to enable an individual bank to replenish its cash reserves or its total liquid assets at a time when these have been depleted by unexpected withdrawals of funds. In making such advances, the Bank of Canada acts as a lender of last resort. The Bank desires that chartered banks should use the facilities of the money market for the adjustment of their cash reserves wherever possible but it stands ready in case of need to augment those facilities by direct advances. The Bank feels that it should be called upon to lend only on those occasions when a chartered bank has experienced a large, unexpected withdrawal of funds which it cannot fully replenish by such methods as calling its day-to-day loans in the money market or selling treasury bills in the market. Both the statutory cash reserve requirement of a minimum of 8 per cent of Canadian dollar deposit liabilities and the chartered banks' agreement to maintain a total of cash reserves, day-to-day loans and treasury bills equal to at least 15 per cent of deposits apply to the daily average position during each calendar month. Therefore, except on rare occasions, banks have a period of several days in which to obtain the needed funds from the money market or through the sale of Government securities. A bank may find borrowing from the central bank unnecessary for very long periods and it should seldom need to borrow twice in the same month.

Present arrangements in regard to central bank advances are designed to encourage banks to use alternative methods of adjusting cash reserves whenever practicable. Advances are made against the hypothecation of suitable securities. Each advance or renewal of an advance is made for a fixed period of seven days. The first advance made to a bank in any calendar month (up to a certain amount specified for each bank) bears interest at the

Bank Rate, the minimum rate at which the central bank makes advances. A second advance to the same bank in any calendar month, or a renewal of an advance, or an advance in excess of the specified amount, bears interest at a rate higher than the Bank Rate.

Purchase and Resale Arrangements with Dealers. Bank of Canada purchases of securities from money market dealers under resale agreements also have the effect of temporarily increasing bank cash reserves. In standing ready to make such purchases the purpose of the Bank is to provide an underlying assurance of liquidity to the money market and to encourage the use of the money market mechanism in the adjustment of cash reserves. The Bank is willing to provide funds to the market in this way for short periods and makes a charge equivalent to the Bank Rate. Repurchase of the relative securities may be made at any time within varying periods not exceeding 30 days. The average period has been $2\frac{1}{2}$ days. The Bank held securities purchased under resale agreements on 62 business days in 1956. The maximum amount outstanding on any one day was \$37 million and the daily average for the year was \$2 million.

Bank Rate. Since the Bank of Canada acts in the role of lender of last resort, its lending rate should not be as low as the interest rate on the most liquid form of security in the market, namely treasury bills. If the treasury bill rate were to rise above the Bank Rate for any length of time, so that the cost of borrowing from the Bank was less than the return on treasury bills, there would be an incentive to rely on Bank of Canada advances rather than to use the money market. Prior to November 1st, 1956 the Bank had followed the practice of keeping its lending rate above the treasury bill rate by raising the Bank Rate at intervals of some months whenever the treasury bill rate approached or temporarily exceeded the previous level of the Bank Rate. In 1956 the Bank Rate was increased from $2\frac{3}{4}$ per cent to 3 per cent on April 4th, to $3\frac{1}{4}$ per cent on August 9th and to $3\frac{1}{2}$ per cent on October 17th. This procedure gave rise to some misunderstanding; in some quarters it was apparently thought that the central bank was setting or fixing or controlling interest rates of all kinds by its action in changing and publishing its own minimum lending rate. (The actual influence of the central bank on interest rates is discussed in a subsequent section.)

The simplest method of ensuring that the Bank Rate will always be higher than the treasury bill rate is to keep it at some specified and published margin above the treasury bill rate, whatever the latter may be. This method was adopted on November 1st when the Bank announced that it would thereafter until further notice adjust its lending rate once a week in order to maintain it at a level of $\frac{1}{4}$ of 1 per cent above the average rate on treasury bills at the most recent tender or auction of treasury bills. At the close of the year the Bank Rate was 3.92 per cent.

Another reason for adopting the new method of determining the Bank Rate was that weekly changes in the treasury bill rate are relatively small in either direction and the fact that such changes occur weekly has become well understood. On the other hand, unexpected, unpredictable, infrequent and relatively large changes in the Bank's lending rate under the previous system were known to have a disturbing effect on business in general and on all persons who might be contemplating the making of investments or entering into business arrangements involving credit and rates of interest. No difficulties of this sort have been reported since the adoption of the new system.

If, with changing circumstances, the new system of determining the Bank Rate were to be found to be undesirable for any reason, the Bank could, of course, again change the basis on which it sets its rate.

The Treasury Bill Tender System. Treasury bills are obligations of the Government of Canada of the same standing as Government bonds, but instead of carrying interest coupons they are sold at a price somewhat below par. The difference between the price at time of issue and the par value which is paid at maturity is the equivalent of an interest yield to the buyer of the bills. Treasury bills are issued every week for a 13-week term. This means that an issue matures each week and an investor can therefore usually find bills with a maturity date suited to his requirements. At the end of 1956 the weekly issue was running at the rate of \$125 million per week and the total amount outstanding was \$1,575 million. Of the total the Bank of Canada held \$507 million, the chartered banks \$743 million and others \$325 million. Included in "others" are several hundred different holders as well as money market dealers. The total holdings of "others" have at times been over \$500 million.

The weekly sale of treasury bills is in effect an auction. Sealed tenders are received from banks and investment dealers, who tender not only on their own behalf but on behalf of numerous clients and customers. A sealed tender is also submitted by the Bank of Canada, and all tenders are opened at 12.00 o'clock noon on Thursday by representatives of the Minister of Finance. The Bank of Canada provides clerical assistance in maintaining custody of the tenders, calculating the results, and advising successful bidders of the amount which they have been allotted. Whoever offers the highest price for the quantity of treasury bills which he desires to buy obtains that quantity at that price. Whoever has offered the next highest price likewise obtains the quantity he wishes to buy at the price he has bid. And so on until the entire amount of the issue has been allotted. A wide variety of bids, which are denominated to the third decimal place, are received on the occasion of each tender. Frequently a bidder will submit half a dozen or more bids at different prices. Perhaps only the higher of these are accepted, in accordance with the process indicated above, but at time of tender the bidder cannot be sure just how many of his bids will be successful. Finally, for information purposes the average of all successful bids is calculated and is made public by the Bank of Canada on behalf of the Minister of Finance.

It is generally the case that total bids received from banks and investment dealers, excluding the Bank of Canada, are for a greater amount of bills than the amount being offered, so that some bids will not be successful, that is, those at the lowest prices. In addition, the Bank of Canada enters bids in the same way as other bidders, and to the extent that those bids are successful other bidders find that a greater proportion of their bids are unsuccessful.

The Bank of Canada normally holds a sizeable amount of the treasury bills maturing each week. If it pursues a strictly neutral course it will subscribe for the same amount of the new issue at a price which it is reasonably confident will make a successful bid. In general its calculations in this respect are borne out by events, but not invariably. If other bidders offer a higher price for a large enough volume of treasury bills, the Bank of Canada will not receive the full amount of its bid. Apart from the normal practice of subscribing for approximately the same amount as it held of the old issue, the Bank may from time to time decide to bid for a larger amount or for a smaller amount, according to its view of

the monetary situation and its desire either to add to the money supply at that time or the reverse. In this way the central bank—as in other countries—has an opportunity at least once a week, quite apart from buying and selling operations in the open market, to increase or decrease its holdings of Government securities. (If, however, the result of a treasury bill tender is to bring about a change in the supply of money which the Bank of Canada considers undesirable, it can and does take other measures, such as buying or selling securities in the market, with a view to offsetting the change which has been brought about through the weekly issue of treasury bills.)

Finally, in order to guard against a situation in which the tenders of other bidders might not be for sufficient quantities to provide a market for the entire issue, the Bank of Canada, although it is under no obligation to do so, has always submitted a reserve bid for the entire amount of each issue. This practice is known to the market, and it ensures that no group, even if it were so inclined, could by boycotting the issue force a large increase in the interest rate on treasury bills. On the other hand, it is possible for buyers of bills other than the central bank to bring about a decline in the interest rate on treasury bills simply by bidding higher prices, presumably because they wish to obtain a larger quantity of bills.

The Government does not attempt to influence the interest rate on treasury bills, although if necessary it could reject the bids received in whole or in part. Changes in the amount of the weekly issue may be made, usually at infrequent intervals, for example because of the state of the Government's cash balances or the imminence of maturities of Government bond issues or the probability of new financing being carried out in some form other than treasury bills.

The Bank of Canada and Interest Rates. Basically, interest rates are determined by the strength of demand for borrowed funds and the availability of the funds from willing lenders. The influence of the central bank (as described below) does not arise from changes in the Bank Rate which, as already indicated, tend to follow market changes, but rather from the operations which the Bank undertakes in order to affect the money supply and from the effect of the resulting changes in the supply of money.

The central bank, like other institutions operating in the capital market, buys and sells Government securities and bids for treasury

bills at the weekly tender. These and other day-to-day operations of the Bank, including its lending to banks and money market dealers, have an influence on the level of interest rates, generally in the direction of resisting rather than inducing or adding to movements of interest rates. In other words the Bank will normally be buying government securities on a declining market and selling on a rising market.

In its day-to-day operations the Bank generally offers some resistance to changes in interest rates (in either direction) in the interests of maintaining orderly conditions in financial markets. However the Bank has always made it quite clear that the establishment or maintenance of any particular level of interest rates is not an objective of central bank policy. Its basic objective, as laid down by statute, is to manage the supply of money, that is, the total amount of currency and bank deposits, with a view to contributing both to economic growth and to general stability of prices.

The management of the supply of money is a complex matter, mainly because there are no firm relationships between the level of total expenditures in the economy, or even the total use of credit, and the total supply of money. There are several reasons for the absence of such relationships. Of the total amount of bank deposits, part is held by the owners for actual working balances and part is held by the owners as a form of liquid reserve. This is true in the case of both savings deposits and demand deposits. However, the proportions of the total held for each of these purposes may vary considerably from one period to another. The amount of total bank deposits which is actually used for making current payments may rise even though there is no growth in total bank deposits. Moreover, bank deposits are only one of a variety of financial claims in which the public can hold its funds—there are also treasury bills, other short-term notes, stocks, bonds and mortgages, many of which are quite liquid—and in some periods the proportion of the total held in the form of bank deposits may be considerably different from that in other periods. Similarly, the chartered banks are but one of a number of sources of credit, and the public may be able to obtain a much larger proportion of its total requirements of borrowed funds from non-bank sources in some periods than in others. One way of describing the situation is to say that there are variations in the rate of use of the supply

of money or in the "velocity of circulation" of money. The central bank has no direct influence on such changes but it must take them into account in managing the total supply of money. The effect of many of these changes cannot be measured statistically and this means that the monetary management cannot be conducted on the basis of any formula. While it can be said that in general an increase in the supply of money operates in the direction of easing the availability of credit and that a decrease operates in the opposite direction, the actual size of the changes which take place must be kept continually under review in the light of the performance of the economy.

In some periods, such as 1954, when the rate of increase in the aggregate demand for goods and services tends to lag behind the rate of increase in Canada's productive capacity, the objective of encouraging the continuation of growth, as well as general stability of prices, requires that the supply of money be plentiful so as to encourage the growth of demand. In such periods the competition for borrowed funds is less keen and interest rates tend to fall. In other periods, such as 1956, the rate of increase in the demand for goods and services may exceed the rate of increase in output, and in order to discourage the development of inflationary pressures at a time when productive capacity is being fully utilized the objective of monetary policy is then to moderate the rate of growth in the money supply. In these circumstances the competition for the supply of loanable funds is keen and interest rates tend to rise.

A policy of maintaining any particular level of interest rates, or of preventing anything more than minor movements, regardless of economic and financial conditions, would require the abandonment of the Bank's main objectives. In periods when the demand for funds was growing rapidly it would have to increase the supply of money to whatever extent was necessary to prevent a rise in interest rates. Prices would be bound to rise under such conditions and the demand for money would go on increasing. Such a policy would require the Bank to expand the money supply at an accelerating rate, thus adding greatly to inflationary forces.

In 1956 the predominant influence on market rates of interest was the strong and continuous growth in the demand for funds. The public's holdings of currency and bank deposits increased moderately and more active use was made of the deposits. The

supply of almost all forms of loanable funds increased, as already noted on page 40 of this Report. However, the rate of increase in the demand for funds was greater than the increase in the total supply of funds and while there were intervals when interest rates fell they rose substantially over the year as a whole.

There are a number of processes through which interest rate increases occur under these conditions. Perhaps the one which is seen the most clearly occurs in the market for new issues of securities where borrowers in effect bid up interest rates. A business firm that requires funds for the expansion of its plant or the purchase of new equipment may decide to borrow by selling a new issue of securities in the market and in order to persuade investors to purchase the new issue it may offer a yield somewhat higher than that on comparable securities already available in the securities market. The same may be true of other securities, including issues by provincial and municipal governments.

Another important way in which interest rates may be increased is through the sale of Government securities by holders who wish to use the proceeds, for example, for the purchase of a house, or the building of a factory. At any given moment there are many individuals, institutions, businesses and local governments holding Government securities and, in the event of a fairly widespread desire to obtain cash, sellers must accept lower prices in order to find sufficient buyers. Other holders, such as banks and insurance companies, may also be sellers of Government securities in order to obtain funds not for investment in their own undertakings but for lending to others, directly or through the medium of the purchase of provincial, municipal and corporation bonds and shares. The strength of the demand for funds by would-be borrowers, and the price they are willing to pay, determines whether banks and other investors, after devoting the whole of their new funds to such purposes, will go further and sell some existing securities (usually Government securities), even at a loss, in order to add to their loanable funds.

The decline in prices of existing securities means that a buyer obtains a larger return on his investment, and this in turn requires those who wish to borrow money, or to sell new issues of securities, to offer higher interest rates than previously, in order

to attract funds which have alternative outlets available to them. Lenders can hardly be expected to make loans to any particular class of borrowers at previous interest rate levels, when there are plenty of new borrowers and new security issues offering higher yields.

In point of timing, of course, new issues of corporate and other securities may be made with higher yields before there has been any fall in Government bond prices, but in such an event selling pressure is bound to develop in the Government bond market as some holders decide to switch into the new more attractive offerings. Similarly, an increase in sales of short-term securities, for example, the notes of instalment finance companies running from 30 days or less up to one year, and the higher interest rates offered on such securities, are an important factor in inducing a rise in treasury bill yields.

The Bank of Canada from time to time buys or sells Government securities, or varies its holdings at time of maturities and new issues. This may be done for reasons of adjusting the money supply, or in the interests of maintaining orderly conditions in the securities market. For the latter purpose the Bank acts as a stabilizing influence, to a degree, by buying at times of selling pressure in the market, and selling at times of buying pressure in the market, on such a scale as to minimize short-run, day-to-day fluctuations but not so as to prevent longer-run tendencies based on real changes in supply and demand. On balance, the Bank has been a buyer of Government securities throughout the period of falling bond prices, that is, of rising interest rates.

Interest Rate Changes. The trend of market interest rates is shown in the table and charts on the facing page. In the period since early 1955 interest rates on long-term Government bonds have risen much less than short-term rates. Heavy sales of relatively short-term bonds made by the chartered banks in order to expand their loans were undoubtedly a factor in the establishment of this pattern. Another factor was the increased sale of short-term notes by instalment finance companies, which was also responsible in part for the reduction in the public's holdings of treasury bills in 1956. The great demand for funds by provinces, municipalities and corporations has caused yields on their long-term securities to rise even more than yields on Government of Canada securities.

Interest rates were increased on most categories of bank loans in 1956 by up to 1 per cent, subject to the 6 per cent maximum. The rate on prime commercial loans, which had remained at $4\frac{1}{2}$ per cent for many years, rose to $5\frac{1}{2}$ per cent. The rate paid by the chartered banks on personal savings deposits was also increased, from 2 per cent to $2\frac{1}{2}$ per cent during the year, and to $2\frac{3}{4}$ per cent effective February 1, 1957.

Market Interest Rates

(per cent per annum)

	<u>1953</u> <u>High</u>	<u>Dec. 31</u> <u>1953</u>	<u>Dec. 31</u> <u>1954</u>	<u>Dec. 31</u> <u>1955</u>	<u>Dec. 31</u> <u>1956</u>
Day-to-day loans (closing rate)	—	—	.75	2.50	3.00
Three-month treasury bills ⁽¹⁾	1.97	1.89	1.06	2.56	3.67
Government bond yields ⁽²⁾					
one year	3.25	2.90	1.60	3.03	4.41
two year	3.48	3.20	1.89	3.28	4.56
five year	3.71	3.62	2.59	3.42	4.60
ten year	3.79	3.64	2.93	3.36	4.10
twenty year	3.84	3.65	3.21	3.41	4.00
Other long-term bond yields ⁽³⁾					
10 provincials	4.20	4.07	3.34	3.82	5.03
10 municipals	4.73	4.50	3.75	4.04	5.45
10 industrials	4.56	4.48	4.00	4.15	5.22

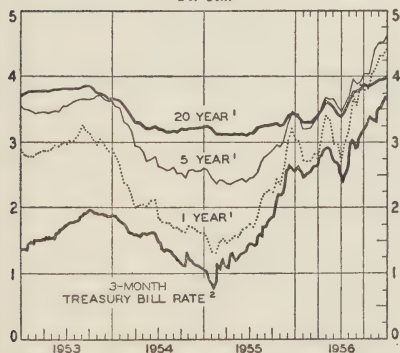
(1) Average rate of successful bids at tender immediately preceding date shown.

(2) Yields on theoretical bonds.

(3) Source: McLeod, Young, Weir & Company Limited.

INTEREST RATES : CANADA

Per Cent

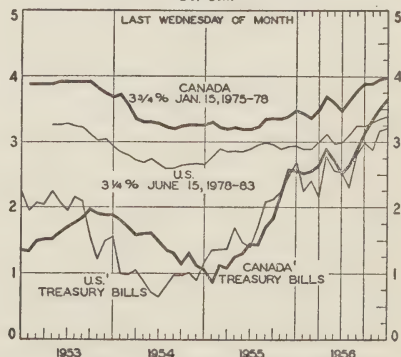


(1) Yields on theoretical government bonds, middle and end of month.

(2) Average rate at weekly tender.

INTEREST RATES : CANADA AND U.S.

Per Cent



(1) Average rate of tender nearest last Wednesday of month.

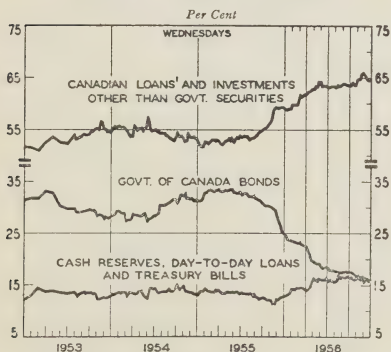
Chartered Banks. Because of the relatively small increase in their cash reserves the chartered banks could not expand their total Canadian assets and deposit liabilities by any large amount during 1956. However, under the pressure of a great increase in the demand for credit, the banks did add to their loans substantially in the first half of the year, and obtained the necessary funds by selling Government bonds on a large scale. Their holdings of Government securities declined from 28.2 per cent of Canadian dollar deposit liabilities at the end of 1955 to 21.6 per cent at the end of 1956.

In accordance with an agreement made in late 1955 the banks, whose holdings of liquid assets (cash reserves, day-to-day loans and treasury bills) had fallen to an unusually low level, rebuilt their holdings of such assets in the first part of 1956. They did this mainly by buying treasury bills from the proceeds of sales of Government bonds, and from June on maintained in each calendar month a daily average ratio of liquid assets to Canadian deposits of at least 15 per cent.

From December 1955 to December 1956, on an average-of-Wednesdays basis, the banks' loans and holdings of insured mortgages and non-Government securities rose by \$725 million, and their holdings of treasury bills increased by \$372 million while their Government bond holdings decreased by \$1,015 million. The ratio of Government bonds (excluding treasury bills) to deposit liabilities declined from 24.3 per cent at the end of 1955 to 15.0 per cent at the end of 1956.

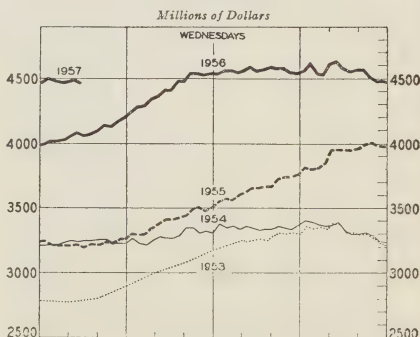
CHARTERED BANKS

MAJOR CANADIAN ASSETS:
RATIOS TO CANADIAN DEPOSITS



(1) Excludes day-to-day loans.

GENERAL LOANS(1)



(1) All loans other than to provincial governments & municipalities, specially secured loans to grain dealers, investment dealers & stockbrokers, and loans to finance the purchase of Canada Savings Bonds.

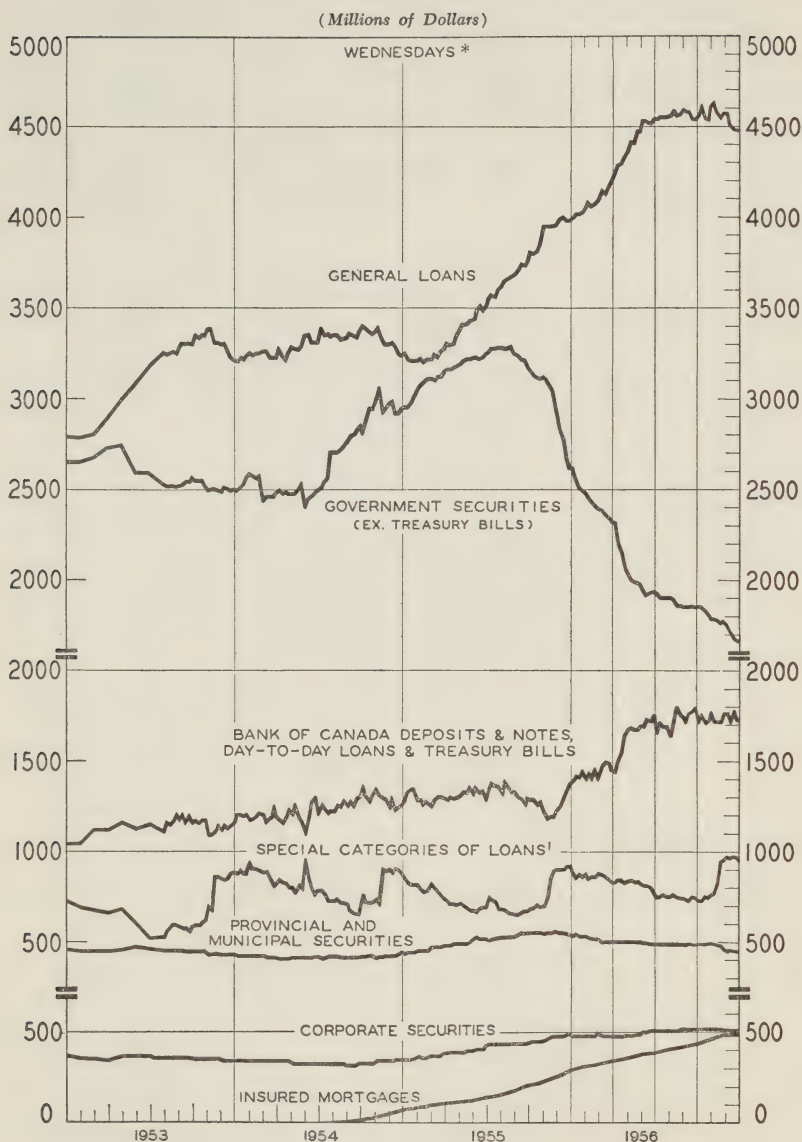
Chartered Banks: Major Canadian Assets and Deposit Liabilities

(average of Wednesday figures—millions of dollars)

<u>Chartered Bank Assets</u>	<u>Dec. 1953</u>	<u>Dec. 1954</u>	<u>Dec. 1955</u>	<u>Dec. 1956</u>	<u>Increase during</u>	
					<u>1956</u>	<u>1955 and 1956</u>
Bank of Canada deposits and notes	903	813	879	904	25	91
Day-to-day loans . . .	—	81	57	70	13	—11
Treasury bills	234	350	375	747	372	397
Sub-total	1,137	1,244	1,311	1,721	410	477
Government bonds . . .	2,497	2,946	2,721	1,706	—1,015	—1,240
Insured mortgages and non- Government securities .	770	839	1,309	1,456	147	617
Special categories of loans ⁽¹⁾	858	890	909	963	54	73
General loans	3,263	3,277	3,988	4,512	524	1,235
Sub-total	4,891	5,006	6,206	6,931	725	1,925
Total of above Canadian assets	8,525	9,196	10,238	10,358	120	1,162
 <u>Chartered Bank Deposits</u>						
Personal savings deposits .	4,744	5,170	5,603	5,960	357	790
Government of Canada deposits	525	347	541	341	—200	— 6
All other (less total float) .	3,064	3,395	3,746	3,670	— 76	275
Total Canadian deposits (less total float)	8,333	8,912	9,890	9,971	81	1,059

(1) Loans to provincial and municipal governments, grain dealers, specially secured loans to investment dealers and stockbrokers, and loans to finance the purchase of Canada Savings Bonds.

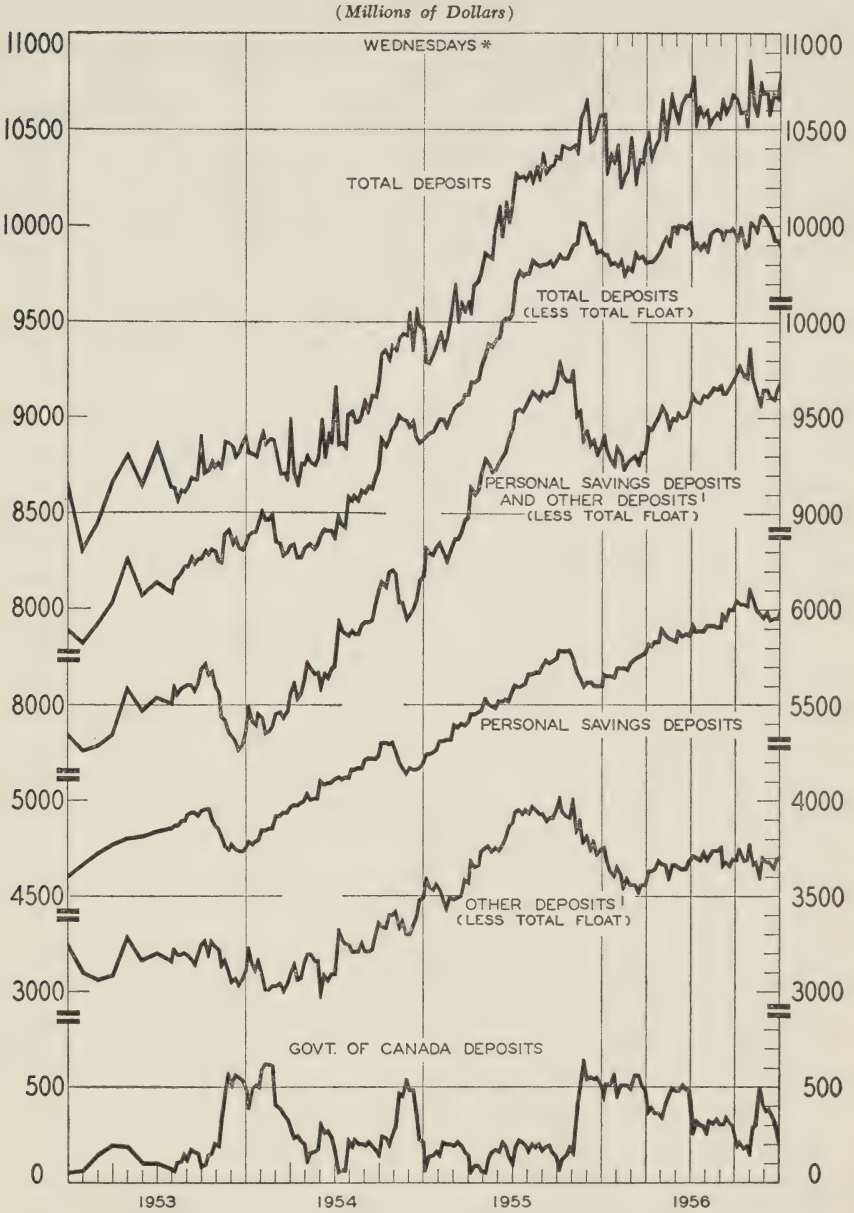
CHARTERED BANKS : MAJOR CANADIAN ASSETS



* Monthly to July 31, 1953.

(1) Loans to provincial governments and municipalities, specially secured loans to grain dealers, investment dealers & stockbrokers, and loans to finance the purchase of Canada Savings Bonds.

CHARTERED BANKS : CANADIAN DOLLAR DEPOSIT LIABILITIES



* Monthly to July 31, 1953.

(1) Excludes Govt. of Canada deposits.

The rapid growth in the general loans of the chartered banks which began in the second quarter of 1955 continued into May 1956 and the increase in the twelve months ending May 31st was 30 per cent. Changes in loans by categories are shown in the table on the facing page and the charts on pages 60 and 61.

Of a total increase in general loans of \$451 million during 1956, the largest part occurred in loans to industrial concerns and loans to instalment and other finance companies which rose by \$251 million and by \$98 million respectively. Within the industrial group the chief industries responsible for the increase were forest products, iron and steel products, petroleum and products and mining and mine products. There were slight declines in two categories of general loans—personal loans and loans to farmers.

Loans to municipalities increased by \$53 million during the year, and loans to provinces increased by \$12 million. Over the same period the chartered banks' holdings of municipal and provincial securities declined by \$33 and \$53 million respectively. Loans to stockbrokers rose to a peak of \$127 million at the end of July and then declined to \$90 million at the end of the year.

In 1956 the total amount of funds disbursed by the chartered banks through insured mortgage loans was slightly greater than in 1955. Sales of mortgages to other investors and repayments were also larger so that the net increase in the holdings of the banks was less in 1956 than in 1955, being \$199 million as compared with \$220 million. The rate at which banks were entering into new commitments to supply mortgage funds for future building projects was reduced sharply in the second half of the year but this development had not, by the year-end, been reflected in the trend of banks' mortgage disbursements or holdings.

In the Annual Report for 1955 it was noted that the chartered banks had agreed to cease making new commitments for term lending, that is, making loans (in excess of \$250,000) to business corporations where the time of repayment is deferred beyond that of ordinary bank loans, or purchasing a security negotiated directly with the customer as distinct from buying a publicly-issued security in the market. The agreement left the banks free to purchase corporate securities and other long-term investments in the open market and to participate with other investors in subscribing to new public issues of securities. As a result

Classification of Chartered Bank Loans and Investments in Canada⁽¹⁾

(millions of dollars)

<u>General Loans</u>	<u>As at December 31st</u>				<u>Increase during</u>	
	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1956</u>	<u>1955 and 1956</u>
Industrial concerns . . .	946	899	976	1,227	251	328
Merchandisers	584	563	635	647	12	84
Instalment and other finance companies ⁽²⁾	256	216	345	443	98	227
Other financial institutions .	82	89	96	120	24	31
Farmers	334	339	366	357	-9	18
Construction contractors .	163	187	278	313	35	126
Public utilities, transportation and communication companies	60	67	141	152	11	85
Personal						
(i) Fully secured by marketable bonds and stocks	269	253	339	324	-15	71
(ii) Home improvement loans	-	-	24	38	14	38
(iii) Other	308	352	441	435	-6	83
Other	238	273	340	376	36	103
 Total general loans . .	 3,240	 3,238	 3,981	 4,432	 451	 1,194

Special Categories of Loans

Provincial governments . .	65	61	83	95	12	34
Municipalities	92	103	124	177	53	74
Grain dealers	391	405	361	373	12	-32
Investment dealers . . .	62	75	67	62	-5	-13
Stockbrokers	92	68	112	90	-22	22
For purchase of Canada Savings Bonds	165	147	163	169	6	22
 Total special categories of loans	 867	 859	 910	 966	 56	 107
 Total loans in Canada . .	 4,107	 4,097	 4,891	 5,398	 507	 1,301

Investments

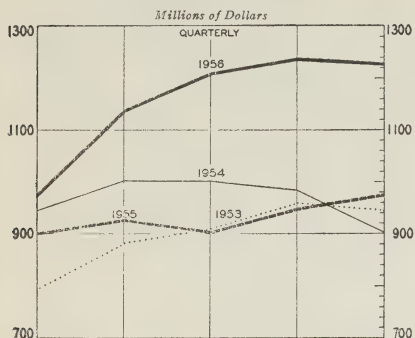
Insured mortgage loans . .	-	74	294	493	199	419
Provincial securities . . .	280	264	322	269	-53	5
Municipal securities . . .	152	177	218	185	-33	8
Corporate securities . . .	341	353	482	510	28	157
 Total investments . . .	 773	 868	 1,316	 1,457	 141	 589

(1) Excluding Government securities and day-to-day loans.

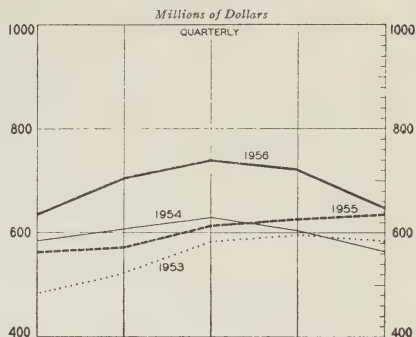
(2) Includes small-loan companies.

CHARTERED BANKS : CANADIAN LOANS

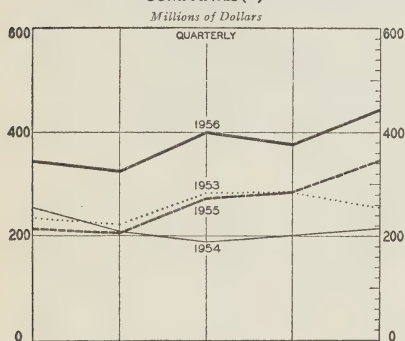
INDUSTRIAL CONCERNS



MERCHANDISERS

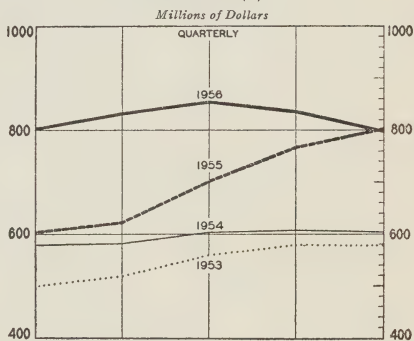


INSTALMENT AND OTHER FINANCE COMPANIES(1)



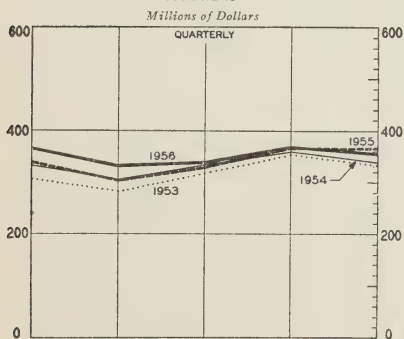
(1) Includes small-loan companies.

PERSONAL (2)

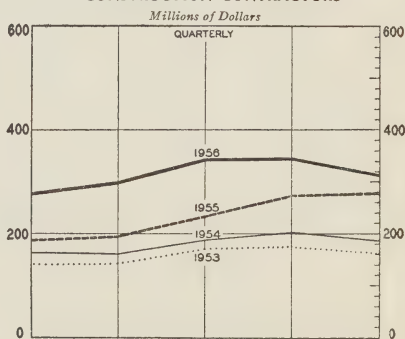


(2) Excludes loans to finance the purchase of Canada Savings Bonds.

FARMERS



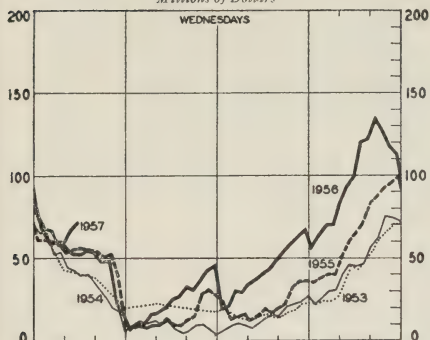
CONSTRUCTION CONTRACTORS



CHARTERED BANKS : CANADIAN LOANS

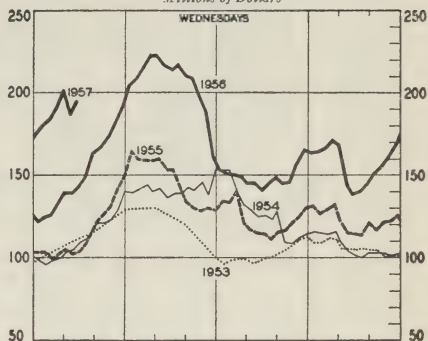
PROVINCIAL

Millions of Dollars



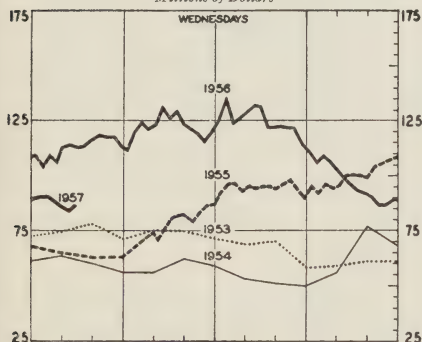
MUNICIPAL

Millions of Dollars



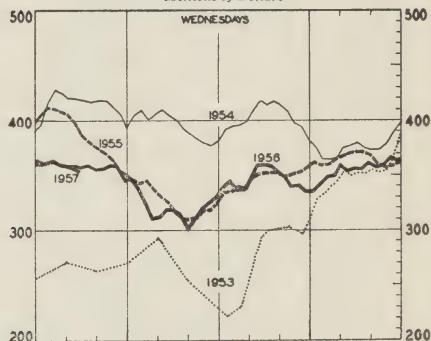
TO STOCKBROKERS

Millions of Dollars



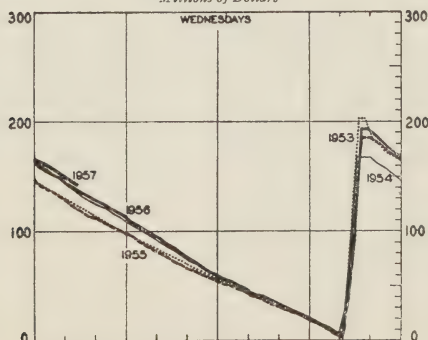
TO GRAIN DEALERS

Millions of Dollars



FOR PURCHASE OF CANADA SAVINGS BONDS

Millions of Dollars



of commitments which had been entered into prior to the agreement there was some increase in the amount of term loans outstanding and for the same reason, as well as purchases of publicly-offered issues, the banks' holdings of corporate securities continued to grow until the latter part of 1956, the total increase in their holdings over the year amounting to \$28 million. At the end of 1956 total unavailed-of commitments for term lending, including commitments for the purchase of securities, were a little more than \$200 million as compared with over \$400 million at the time the agreement was made in late 1955.

Consumer Credit. It is estimated that in 1956 total consumer credit increased by \$283 million as compared with an increase of \$339 million in 1955. The increase since the end of 1954 has amounted to 34 per cent and since the end of 1952 to 78 per cent. Excluding the chartered banks' direct personal loans for this purpose, the increase in 1956 was \$289 million as compared with \$250 million in 1955. Of the various types of consumer credit, the largest increase in 1956 occurred in instalment credit, \$197 million as compared with \$159 million in 1955; \$165 million of the increase in 1956 was accounted for by instalment finance companies as against \$104 million in 1955. Cash personal loans by the chartered banks declined by \$6 million in 1956 while those of other lenders increased by \$82 million. Details are shown in tabular and chart form on the facing page.

The funds obtained during 1956 by instalment finance and small-loan companies to finance the increase in their loans to consumers and business concerns came from a variety of sources. Their bank loans increased by \$98 million, their short-term notes outstanding rose by about \$90 million, and they raised \$134 million through the sale of long-term bonds and debentures and \$12 million through the sale of stock. In addition subsidiary companies obtained some funds from parent companies abroad. The increase in the instalment finance companies' retail receivables during the year, including industrial and commercial as well as consumer credit, was \$238 million, as shown in the chart on the facing page.

1 1 1

Consumer Credit Outstanding Estimates of Selected Items

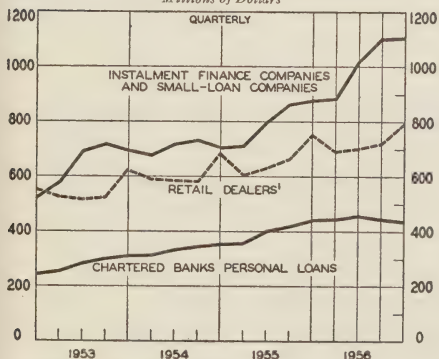
(millions of dollars)

	Charge Accounts	Instalment Credit			Cash Personal Loans		Total of Selected Items
		Retail Dealers	Finance Companies	Total	Chartered Banks	Other	
1952—Dec. 31	309	243	373	616	242	218	1,385
1953—Dec. 31	339	284	520	804	308	259	1,710
1954—Dec. 31	363	322	497	819	352	309	1,843
1955—Mar. 31	301	304	496	800	357	318	1,776
June 30	317	314	559	873	399	344	1,933
Sept. 30	330	334	610	944	418	361	2,053
Dec. 31	374	377	601	978	441	389	2,182
1956—Mar. 31	331	362	596	958	443	406	2,138
June 30	338	365	704	1,069	455	437	2,299
Sept. 30	345	376	776	1,152	444	454	2,395
Dec. 31*	384	409	766	1,175	435	471	2,465

*preliminary estimates.

CONSUMER CREDIT OUTSTANDING

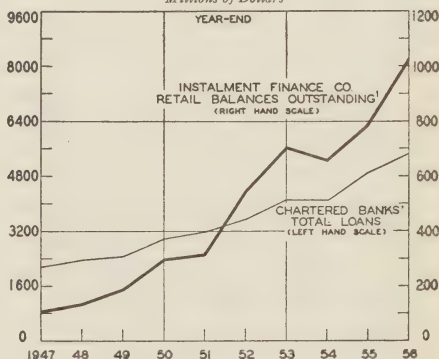
Millions of Dollars



(1) Charge accounts and instalment credit.

INSTALMENT FINANCE COMPANIES' RETAIL BALANCES OUTSTANDING AND CHARTERED BANKS' TOTAL LOANS

Millions of Dollars



(1) Includes retail balances on commercial and industrial goods as well as consumers' goods but excludes all wholesale balances (mainly in connection with automobiles), which were in excess of \$175 million at the end of 1956.

Currency and Bank Deposits held by the General Public. The total amount of currency and chartered bank deposits held by the general public rose by \$373 million, compared with an increase of \$857 million in 1955. Personal savings deposits increased by \$357 million in 1956 compared with \$433 million in 1955.

General Public Holdings of Currency and Chartered Bank Deposits

(average of Wednesday figures—millions of dollars)

					Increase during	
	Dec. 1953	Dec. 1954	Dec. 1955	Dec. 1956	1956	1955 and 1956
Currency (notes and coin) .	1,402	1,424	1,497	1,589	92	165
Deposits (other than personal savings deposits) ⁽¹⁾ . .	3,064	3,395	3,746	3,670	—76	275
Total currency and bank deposits (excluding personal savings deposits) ⁽¹⁾ . .	4,466	4,819	5,243	5,259	16	440
Personal savings deposits .	4,744	5,170	5,603	5,960	357	790
Total currency and bank deposits (including personal savings deposits) ⁽¹⁾ . .	9,210	9,989	10,846	11,219	373	1,230

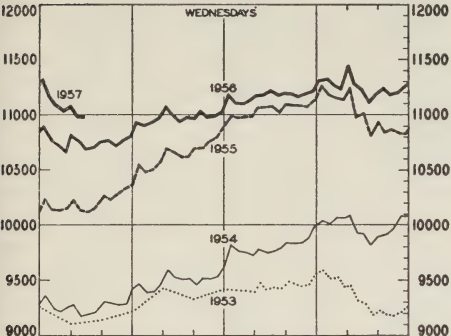
(1) less total float.

Securities Market. In 1956 the market for Government of Canada securities was influenced by two major factors. First, the chartered banks were sellers of securities on a very large scale as they sought to obtain funds for the expansion of their loans and other investments. Life insurance companies were also selling on a substantial scale in order to supplement their funds normally available for investment. The second major influence, working in the opposite direction, was that total Government of Canada direct and guaranteed securities outstanding were reduced by a large amount. The net retirement of market issues totalled \$888 million, which amount was greater than the combined net sales of the chartered banks (\$598 million)

CURRENCY AND CHARTERED BANK DEPOSITS HELD BY THE GENERAL PUBLIC

CURRENCY(1) AND BANK DEPOSITS(2)
INCL. PERSONAL SAVINGS DEPOSITS

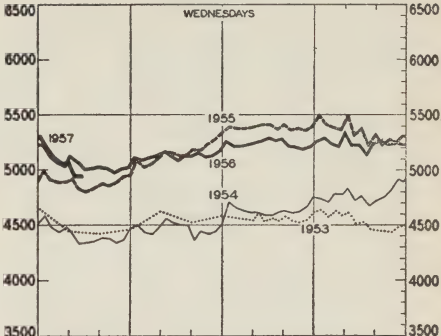
Millions of Dollars



(1) Notes and coin.
(2) Less total float.

CURRENCY(1) AND BANK DEPOSITS(2)
EXCL. PERSONAL SAVINGS DEPOSITS

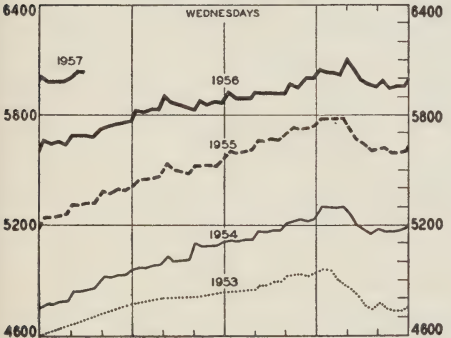
Millions of Dollars



(1) Notes and coin.
(2) Less total float.

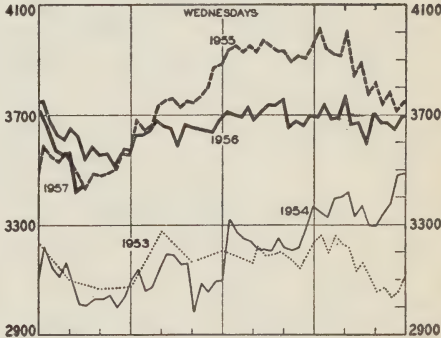
PERSONAL SAVINGS DEPOSITS

Millions of Dollars



OTHER DEPOSITS(1)

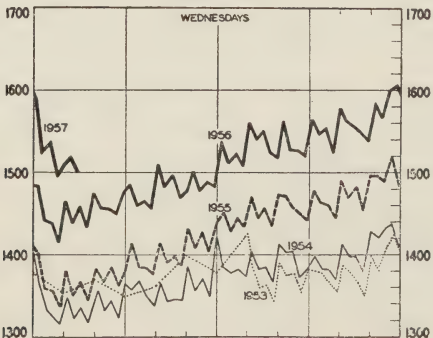
Millions of Dollars



(1) Chartered Bank deposits, excluding personal savings deposits and less total float.

CURRENCY(1)

Millions of Dollars



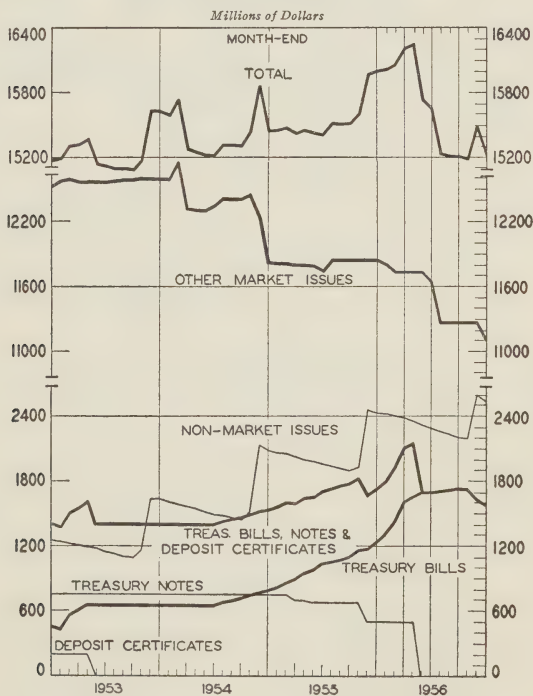
(1) Notes and coin.

Changes in Outstanding Government of Canada Direct and Guaranteed Securities in 1956

(millions of dollars)

	<u>New Issues</u>	<u>Retirements</u>	<u>Net Change</u>
Market bonds — direct	650	1,305	- 655
— guaranteed	—	67	- 67
Sub-total	650	1,372	-722
Treasury bills			+350
Treasury notes			-500
Matured and outstanding debt			- 3
Exchange rate valuation adjustment			-13
Total market issues			-888
Canada Savings Bonds	877	769	+108
Total Government securities			-780

CLASSIFICATION OF GOVT. OF CANADA DIRECT AND GUARANTEED SECURITIES OUTSTANDING⁽¹⁾



and life insurance companies (estimated to be \$173 million). The amount of Canada Savings Bonds outstanding increased by \$108 million during the year. Changes in the various types of securities outstanding are shown in the table and chart on the facing page.

The reduction in Government of Canada direct and guaranteed securities outstanding of \$780 million in the calendar year was accounted for by a budgetary surplus of \$272 million during that period, an excess of non-budgetary receipts over payments of \$186 million, and a reduction of \$322 million in the Government's bank deposits over the calendar year.

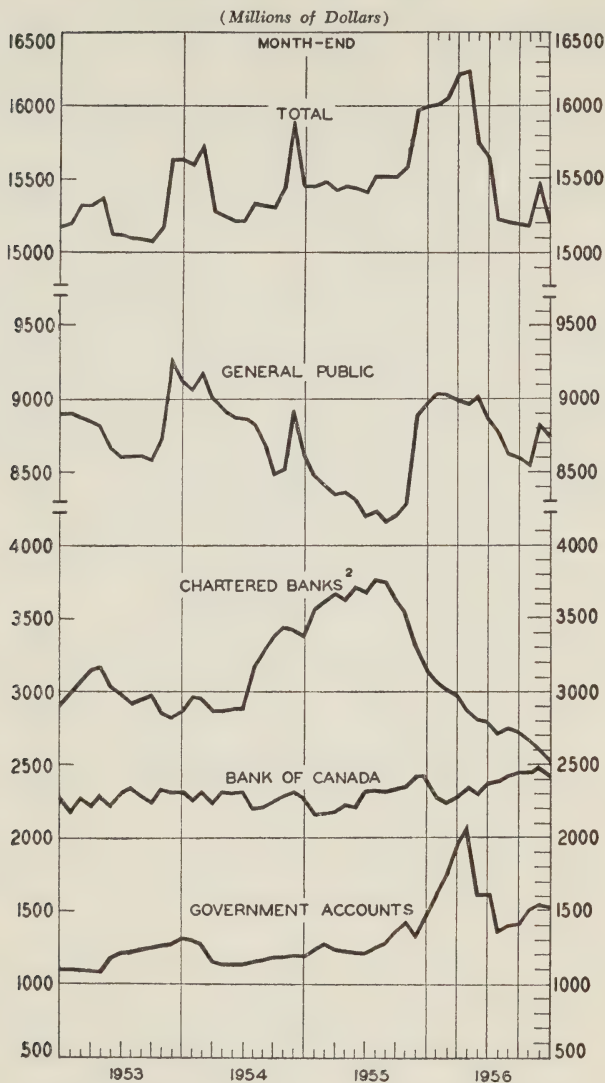
In the first part of 1956 the Government gradually expanded the total issue of 91-day treasury bills outstanding and the proceeds were used to withdraw gradually the issue of six month treasury notes, all of which were held by the Bank of Canada at the beginning of the year. The treasury note issue was retired on its maturity date, May 1st, by which date all of it had been purchased by the securities investment account of the Government. This account is used for the employment of Government balances and through it the Government at times purchases securities in advance of maturity as an alternative to keeping balances idle until the whole of an issue can be retired at maturity.

The distribution of holdings of Government of Canada securities is shown in the table on page 69 and the chart on page 68.

In the market for securities other than Government of Canada securities, it is estimated that provinces, municipalities, corporations and institutions obtained a total of \$2,250 million of new money in 1956 as compared with \$1,240 million in 1955. Substantially larger amounts were obtained from both the Canadian and New York markets. Details are shown in tabular and chart form on pages 70 and 71.

Provinces and corporations both raised more than twice as much new money as in 1955 through the sales of bonds and debentures, and sales of corporate stocks also increased considerably. Municipalities raised slightly more new money than in 1955 in the capital markets and relied on bank credit to a greater extent than in previous years. (Bank loans to municipalities increased by \$53 million in 1956 as compared with \$21 million in 1955.)

DISTRIBUTION OF HOLDINGS OF GOVT. OF CANADA DIRECT AND GUARANTEED SECURITIES⁽¹⁾



(1) Par values.

(2) Estimated par values.

Distribution of Holdings of Direct and Guaranteed Securities of the Government of Canada

(Par values—millions of dollars)

	As at	Increase or Decrease in 1956				
	Dec. 31/56	1Q	2Q	3Q	4Q	Total
Bank of Canada						
Treasury bills	507	194	—	79	—30	243
Treasury notes	—	—445	—55	—	—	—500
Other market issues	1,919	125	138	—	4	267
Total	2,426	—126	83	79	—26	10
Chartered Banks (estimated)						
Treasury bills	743	167	179	15	—46	315
Other market issues	1,791	—321	—360	—80	—152	—913
Total	2,534	—154	—181	—65	—198	—598
Government Accounts						
Unemployment Insurance Fund						
Treasury bills	31	—31	—	—	31	—
Other market issues	893	—	—3	45	—1	41
Total	924	—31	—3	45	30	41
Securities Investment Account						
Treasury bills	—	—	—	—	—	—
Treasury notes	—	445	—445	—	—	—
Other market issues	160	50	91	—236	55	—40
Total	160	495	—354	—236	55	—40
Other Government Accounts						
Treasury bills	9	—5	3	—1	6	3
Other market issues	425	—	11	7	5	23
Total	434	—5	14	6	11	26
General Public (residual)						
Treasury bills	285	50	—92	—53	—116	—211
Other market issues	5,916	30	66	—144	—68	—116
Total market issues	6,201	80	—26	—197	—184	—327
of which — non-residents ⁽¹⁾	499	—26	—9	—33	—4	—72
— life insurance cos. ^{(1) (2)}	620	—47	—70	—28	—28	—173
— all other holders ⁽¹⁾	5,082	153	53	—136	—152	—82
Canada Savings Bonds	2,541	—46	—94	—83	331	108
Total	8,742	34	—120	—280	147	—219
Total Outstanding						
Treasury bills	1,575	375	90	40	—155	350
Treasury notes	—	—	—500	—	—	—500
Other market issues	11,104	—116	—57	—408	—157	—738
Canada Savings Bonds	2,541	—46	—94	—83	331	108
Total	15,220	213	—561	—451	19	—780

(1) Preliminary estimates.

(2) Holdings in respect of Canadian operations.

New Security Issues and Retirements⁽¹⁾

(millions of dollars)

		Gross New Issues			Retirements			Net New Issues		
		Cdn. \$ Only	Other Currencies	Total	Cdn. \$ Only	Other Currencies	Total	Cdn. \$ Only	Other Currencies	Total
Provincial Bonds ⁽²⁾	1955	372	—	372	111	50	161	261	—50	211
	1956	386	215	601	64	21	85	322	194	516
Municipal Bonds ⁽²⁾	1955	338	40	378	107	22	129	231	18	249
	1956	289	110	399	119	24	143	170	86	256
Corporate & Other Bonds ⁽³⁾	1955	726	8	734	357	45	402	369	—37	332
	1956	798	228	1,026	181	10	191	617	218	835
Corporate Stocks	1955	522	—	522	74	—	74	448	—	448
	1956	650	—	650	7	—	7	643	—	643
Total	1955	1,958	48	2,006	649	117	766	1,309	—69	1,240
	1956	2,123	553	2,676	371	55	426	1,752	498	2,250

(1) 1956 figures are preliminary. New issues are based on delivery dates rather than dates of offering.

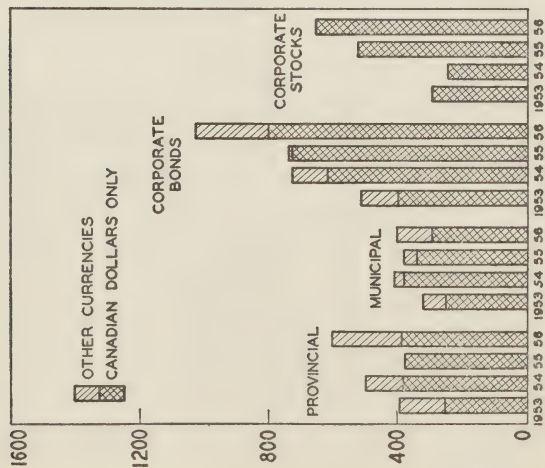
(2) Includes guaranteed bonds.

(3) "Other" bonds, all Canadian dollar issues, include those of religious and other institutions, Australia and the International Bank for Reconstruction and Development, and amounted to \$52 million in 1955 and \$12 million in 1956 on a gross basis, and \$25 million in 1955 and \$3 million in 1956 on a net basis.

NEW ISSUES OF SECURITIES (1)

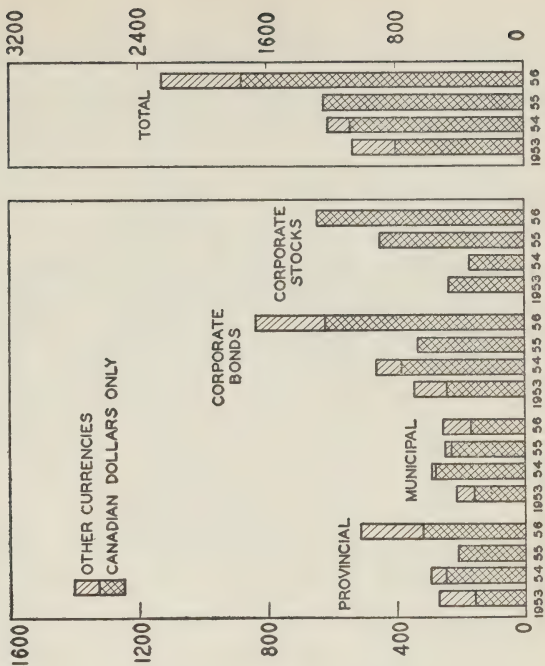
GROSS NEW ISSUES

Millions of Dollars



NET NEW ISSUES (2)

Millions of Dollars



(1) Based on dates of delivery.

(2) Gross new issues less retirements.

International Capital Account. In 1956 there were two major developments in Canada's international payment accounts: an unusually large increase in imports of goods and services, and a very substantial rise in the inflow of long-term capital. To a considerable extent these developments were related, both being connected with the large capital investment program in Canada.

Exports of goods and services rose substantially, but to a smaller extent than imports, and the balance of payments deficit on current account increased from \$700 million in 1955 to \$1,400 million in 1956.

The major part of the increase in the inflow of longer-term capital came from a much larger volume of new bond issues, especially provincial and corporate issues, sold to non-residents. Most of these were payable wholly or optionally in a foreign currency, and further details on foreign currency bond issues are shown in the table on page 70 and the chart on page 71. Because of the relatively stronger demand for funds in Canada in 1955 and 1956 longer-term interest rates rose to a greater extent here than in the United States, making borrowing in the United States by Canadians and the purchase of outstanding Canadian-debtor securities by non-residents relatively more attractive. The international trade in outstanding Canadian-debtor bonds produced a small capital inflow in 1956 compared with a substantial outflow in 1955. Net sales of outstanding Canadian common and preferred stocks to the United States in 1956 were slightly lower than in 1955 but sales to the United Kingdom and Europe were much larger.

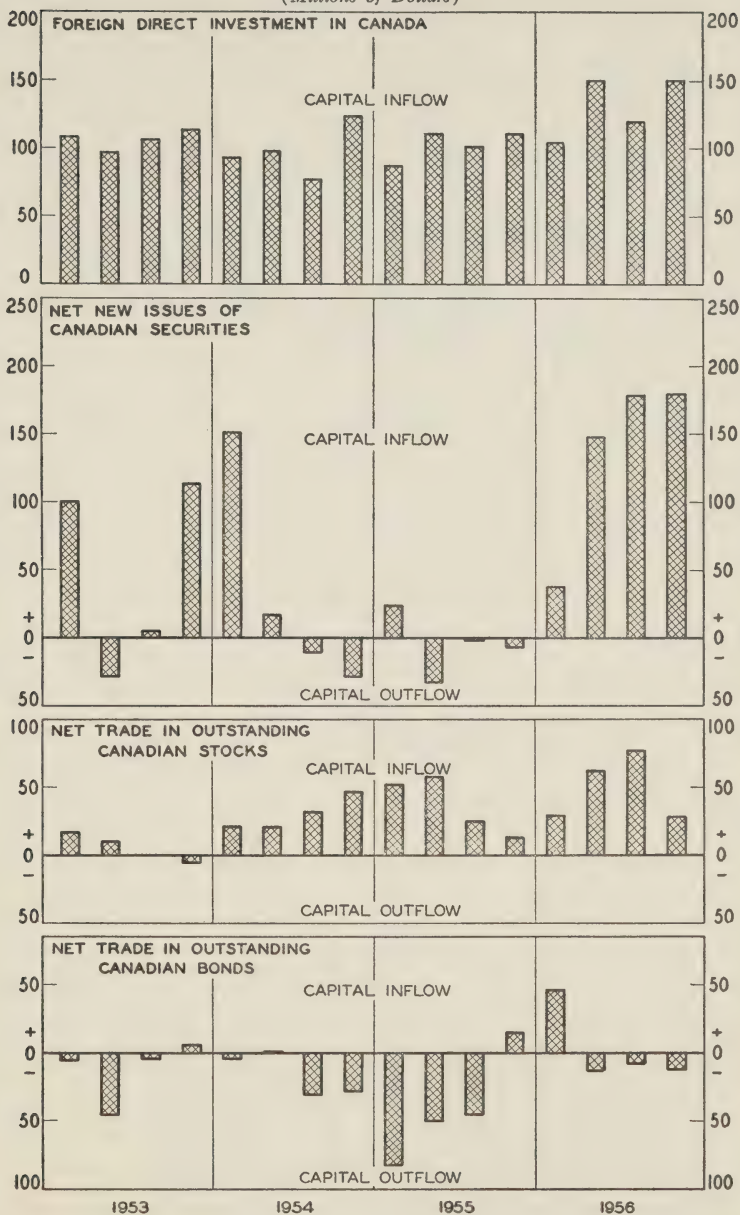
Foreign direct investment in Canada in 1956 was considerably greater than in 1955 with continued emphasis on projects associated with the development of primary resources. The inflow of funds related to exploration, development and pipe-line construction in the petroleum and gas industry was substantially higher, and there were also considerably larger inflows to finance processing plants in the pulp and paper, metals, mineral and chemical industries.

A chart on the international capital account appears on the facing page and a table on page 74.

In the course of the year the foreign exchange value of the Canadian dollar rose by about 4 per cent. The value of the

COMPONENTS OF INTERNATIONAL CAPITAL ACCOUNT

(Millions of Dollars)



Source: Dominion Bureau of Statistics.

Capital Account: Canadian Balance of International Payments⁽¹⁾ (*millions of dollars*)

	1955				1956					
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
CURRENT ACCOUNT BALANCE	-174	-174	-89	-255	-358	-447	-218	-375	1955 -692	1956 -1,398
Foreign direct investment in Canada ⁽²⁾	+87	+111	+101	+111	+105	+150	+120	+150	+410	+525
Canadian direct investment abroad ⁽²⁾	-8	-9	-12	-38	-50	-5	-25	-20	-67	-100
Canadian securities										
New issues; bonds	+65	+16	+12	+7	+101	+139	+184	+180	+100	+604
stocks	+44	+13	+4	+5	+5	+34	+18	+20	+66	+77
Retirements	-85	-62	-18	-19	-69	-26	-24	-21	-184	-140
Net trade in outstanding bonds	-83	-51	-46	+15	+46	-14	-8	-12	-165	+12
Net trade in outstanding stocks	+52	+58	+25	+13	+29	+62	+77	+28	+148	+196
Transactions in foreign securities (net)	+10	-25	+14	-14	-17	+5	+7	+19	-15	+14
Loan repayments by foreign governments	+7	+18	+9	+35	+7	+21	+7	+34	+69	+69
Increase (+) in Canadian dollar holdings of non-residents	+30	+39	+6	+14	-22	-5	-2	+5	+89	-24
Decrease (+) in official holdings of gold and foreign exchange	+71	-56	-7	+36	+29	-30	-5	-27	+44	-33
Other capital movements (net)	-16	+122	+1	+90	+194	+116	-131	+19	+197	+198
CAPITAL ACCOUNT BALANCE	+174	+174	+89	+255	+358	+447	+218	+375	+692	+1,398

(1) Capital inflows shown as plus (+) and outflows as minus (-).
(2) Exclusive of undistributed profits.

Source: Dominion Bureau of Statistics.

United States dollar in Canadian funds, which at the beginning of the year was \$.99 29/32, remained close to that level in the first four months and then declined throughout the remainder of the year, closing at \$.95 31/32.

Canada's official holdings of gold and U.S. dollars rose from \$1,900.8 million (U.S.) at the end of 1955 to \$1,936.2 million (U.S.) at the end of 1956.

Public Debt Operations. The details of new issues and retirements of Government bonds in 1956 are summarized in the table on the following page.

During the first half of 1956 three issues were retired by the Government and one Government guaranteed CNR issue matured. On June 24th, 1955 notice was given that the 3½ per cent \$48 million issue payable in U.S. funds, with a final maturity date of January 15, 1961, would be redeemed on January 15th, 1956, and on February 1st the 4½ per cent \$67.4 million CNR issue was retired. On March 29th notice was given that the 3½ per cent \$54.7 million issue, with a final maturity date of June 1, 1966, would be called for payment on June 1st. A 2½ per cent \$400 million issue matured on July 1st.

One long-term market issue was sold in 1956. On August 30th the 41½ year conversion issue of 3¾ per cent bonds due March 15th, 1998 was sold in the amount of \$250 million in exchange for 3 per cent Fifth Victory Loan bonds due January 1st, 1959. The new issue was dated September 15th and is callable on or after September 15th, 1996. This conversion operation reduced the amount of the Fifth Victory Loan outstanding from \$1,197 million to \$947 million.

A new short-term issue of 2½ per cent Government bonds of \$400 million was sold on November 29th. The issue, dated December 15th, consisted of \$150 million 6-month bonds due June 15th, 1957 and \$250 million 1-year bonds due December 15th, 1957. The proceeds of this issue, together with other cash resources of the Government, were used for the redemption of \$550 million 2½ per cent bonds maturing on December 15th.

The Eleventh series of Canada Savings Bonds went on sale in October. These bonds, which bear coupons ranging from 3½ per cent to 4 per cent, have an average yield of 3.76 per cent per annum if held to maturity. Up to December 31st total sales

New Issues and Retirements of Government of Canada Direct and Guaranteed Bonds, 1956

<u>Date of Issue or Redemption</u>	<u>Type of Security</u>	<u>Amount (millions of dollars) New Issue</u>	<u>Amount Retirement</u>	<u>Currency of Payment</u>	<u>Coupon Rate</u>	<u>Date of Maturity</u>	<u>Earliest Call Date</u>	<u>Issue Price</u>	<u>Yield</u>
Jan. 15	Govt. Loan . . .		48.0	U.S.	3¼	Jan. 15/61	Jan. 15/56		
Feb. 1	CNR — Govt. Gtd. .		67.4	C £ U.S.	4½	Feb. 1/56	N/C		
June 1	Govt. Loan . . .		54.7	C	3¼	June 1/66	June 1/56		
July 1	Govt. Loan . . .		400.0	C	2¼	July 1/56	N/C		
Sept. 15	Govt. Loan . . .	250.0		C	3¾	Mar. 15/98	Sept. 15/96	97.00	3.90
Sept. 15	Fifth Victory Loan . (in part)		250.0	C	3	Jan. 1/59	Jan. 1/56		
Dec. 15	Govt. Loan . . .	150.0		C	2¼	June 15/57	N/C	99.125	4.03
Dec. 15	Govt. Loan . . .	250.0		C	2¼	Dec. 15/57	N/C	98.00	4.31
Dec. 15	Govt. Loan . . .		550.0	C	2¼	Dec. 15/56	N/C		
	Canada Savings Bonds .	876.8	769.1						
	Other retirements . .		1.4						
		<u>1,526.8</u>	<u>2,140.6</u>						

amounted to \$818 million as compared with \$670 million of the Tenth series at the end of 1955. Payroll sales were \$214 million, \$18 million more than the previous year. The first series of Canada Savings Bonds, which went on sale on November 1st, 1946, matured on November 1st, 1956. Total encashments of all series during the year amounted to \$769 million. The net increase in Canada Savings Bonds outstanding during the year was \$108 million, bringing the total outstanding at the end of 1956 to \$2,541 million or nearly 17 per cent of the total direct and guaranteed funded debt.

Notes in Circulation. In 1956 the total amount of Bank of Canada notes outstanding increased by \$130 million as compared with an increase of \$115 million in 1955. The distribution by denominations is shown in the table below.

Bank of Canada Note Liabilities

(as at December 31st—in thousands of dollars)

	<u>1950</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
Notes issued by the Bank of Canada				
\$1	50,273	62,161	65,491	70,270
2	37,279	44,680	47,373	50,371
5	111,731	122,424	130,931	138,004
10	429,886	469,295	499,587	528,741
20	346,060	453,121	493,655	555,756
25	47	46	46	46
50	108,735	123,729	127,747	134,381
100	254,457	323,084	347,256	364,052
500	160	69	63	58
1,000	11,489	10,353	12,201	13,233
Total	<u>1,350,117</u>	<u>1,608,961</u>	<u>1,724,350</u>	<u>1,854,912</u>
Dominion of Canada notes*	4,702	4,661	4,655	4,651
Provincial notes*	28	28	28	28
Defunct banks' notes* . .	88	88	88	88
Chartered banks' notes* .	12,487	9,719	9,370	9,025
Total Bank of Canada Note Liabilities	<u>1,367,422</u>	<u>1,623,457</u>	<u>1,738,491</u>	<u>1,868,704</u>

*These are note issues which are in the process of being retired and the liability for them has been taken over by the Bank of Canada from the original issuers.

Valuation of Securities. Commencing with its published statement for December 31, 1956 the Bank of Canada, with the approval of its external auditors and the Minister of Finance, has adopted amortized values as the basis for valuing its holdings of securities. This is the basis used in the Government of Canada's investment accounts and was authorized by Parliament in 1952 for federal, provincial and certain foreign government securities held by life insurance companies. In the United States it has for many years been the authorized basis of valuing securities by banks and life insurance companies.

The previous practice of the Bank was to carry government securities in its published statements at values not exceeding market prices. This was accomplished by setting aside out of profits certain amounts by way of inner reserves, which were deducted from the value of the securities as carried in the Bank's basic account records; the resulting lower values were those published in the Bank's weekly and monthly statements. Because of the possibility of fluctuations in market prices the inner reserves were, over the years, built up to large proportions, and consequently the Bank's securities were carried at published values substantially below cost.

These large inner reserves had the purpose of insulating the Bank's weekly and monthly statements from the effect of fluctuations in Government security prices, a purpose which is better served by the use of amortized values. The practice of valuing securities at prices not exceeding market prices had several disadvantages. Financial institutions which value their securities at prices not exceeding market find that large appropriations from earnings to inner reserves must often be made in periods when, although security prices are falling, prospective and to some extent current earnings are rising, and as a result, the annual profit picture may be seriously distorted. Also, when changes in inner valuation reserves occur, they have the effect of distorting balance sheet figures for changes in security holdings, and this is particularly important in the case of banks, since changes in their security holdings are a matter of special interest to analysts of monetary affairs.

Under the amortized valuation basis now being used by the Bank, premiums and discounts on securities bought at prices

above or below par values are amortized weekly so that changes in the valuation factor between successive statements are small.

With the change in the basis of valuation, the Bank's inner reserves became redundant and the amount of \$42.6 million, representing appropriations of profits from previous year's earnings, together with the net profits from 1956 amounting to \$47.3 million, were paid over to the Receiver-General of Canada on December 31st to be placed to the credit of the Consolidated Revenue Fund, which is the statutory procedure for the disposal of Bank of Canada profits.

Because of the change in the basis of valuation, balance sheet figures of the Bank of Canada's security holdings before December 31, 1956 are not directly comparable with those for later dates. In order to provide a basis for comparison the Bank will now be publishing the par value of its holdings of securities among the regular statistical series in its monthly Statistical Summary, and will make this par value information available in respect of the whole period since the Bank was established in March 1935.

Profit and Loss. Net earnings from the Bank's operations in 1956 amounted to \$47,272,179, compared with \$42,937,694 in the previous year. As indicated in the preceding section an amount of \$42,592,924, which had been set aside out of previous years' profits as inner reserves for the valuation of securities, was reversed and credited to profits. The combined total of \$89,865,103 was paid to the Receiver-General of Canada to be placed to the credit of the Consolidated Revenue Fund. In 1955 \$38,341,041 had been paid to the Receiver-General of Canada, representing the surplus for that year after applying \$4,596,653 to the Rest Fund, which brought the Rest Fund up to the limit set by statute, i.e. \$25,000,000 or five times the Bank's paid-up capital.

BANK OF CANADA • STATEMENT

A S S E T S

Foreign Exchange:

Pounds Sterling and U.S.A.		
Dollars — at market value	\$	60,846,725
Other currencies — at market value		147,644 \$
		<hr/> 60,994,369

Cheques on other Banks . 7,091,024

Accrued Interest on Investments 14,626,084

Investments — at amortized values:

Treasury Bills of Canada .	\$	505,227,889	
Other securities issued or guaranteed by Canada maturing within two years		519,737,931	
Other securities issued or guaranteed by Canada not maturing within two years		1,368,977,442	
Debentures issued by Industrial Development Bank		22,979,700	
Other securities		16,709,345	2,433,632,307
		<hr/>	

Industrial Development Bank:

Total share capital at cost 25,000,000

Bank Premises:

Land, buildings and equipment —
at cost less amounts written off 5,770,669

Other Assets: 581,047

\$ 2,547,695,500

J. E. COYNE, *Governor*
Ottawa, January 22, 1957.

E. FRICKER, *Chief Accountant*

ASSETS AND LIABILITIES

AT DECEMBER 31st, 1956

LIABILITIES

Capital Paid Up:

Authorized and issued — 100,000 shares, par value \$50 each	\$	5,000,000
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Rest Fund		25,000,000
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Notes in Circulation		1,868,703,781
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Deposits:

Government of Canada	\$	38,770,957	
Chartered Banks		511,496,366	
Other		31,191,395	581,458,718
		<hr/>	

Liabilities payable in Pounds Sterling, U.S.A. Dollars and other foreign currencies:

To Government of Canada	\$	53,386,335	
To others		8,788,261	62,174,596
		<hr/>	

Bank of Canada Cheques Outstanding		3,144,394
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Other Liabilities:		2,214,011
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	<hr/>	\$ 2,547,695,500	<hr/>
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Auditors' Report • We have made an examination of the statement of assets and liabilities of the Bank of Canada as at December 31, 1956 and have received all the information and explanations we have required. We report that, in our opinion, it correctly sets forth the position of the Bank at December 31, 1956 according to the best of our information and as shown by the books of the Bank.

J. GRANT GLASSCO, O.B.E., F.C.A.,
of Clarkson, Gordon & Co.

JEAN VALIQUETTE, C.A.,
of Anderson & Valiquette.

PROFIT AND LOSS ACCOUNT

For the year ended December 31, 1956

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PROFIT FOR THE YEAR ENDED DECEMBER 31, 1956	\$ 47,272,179
TRANSFER OF INNER INVESTMENT RESERVE .	42,592,924
PAID TO THE RECEIVER GENERAL OF CANADA for credit of the Consolidated Revenue Fund .	<u>\$ 89,865,103</u>

BOARD OF DIRECTORS



J. E. COYNE, *Governor*

J. R. BEATTIE, *Deputy Governor*

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Member of the Executive Committee

J. M. BUCHANAN, *Vancouver, B.C.*

E. G. BURTON, C.B.E., *Toronto, Ont.*

J. L. CAVANAGH, *New Glasgow, N.S.*

N. A. HESLER, *Sackville, N.B.*

W. A. JOHNSTON, Q.C., *Winnipeg, Man.*

R. H. MILLIKEN, Q.C., *Regina, Sask.*

H. O. PATRIQUIN, *Edmonton, Alta.*

A. C. PICARD, *Quebec, Que.*

H. A. RUSSELL, *St. John's, Nfld.*

A. SAMOISSETTE, O.B.E., *Montreal, Que.*

A. A. SCALES, *Freetown, P.E.I.*

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K. W. TAYLOR, C.B.E., *Deputy Minister of Finance, Ottawa*

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R. B. McKIBBIN, *Deputy Governor*

W. E. SCOTT, *Executive Assistant to the Governors*

L. F. MUNDY, *Secretary*

E. FRICKER, *Chief Accountant*

E. METCALFE, *Auditor*

SECRETARY'S DEPARTMENT

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P. D. SMITH, *Deputy Secretary*

C. H. RICHARDSON, *Deputy Secretary*

L. P. J. ROY, *Deputy Secretary*

A. J. BAWDEN, *Administrative Assistant*

J. C. NESBITT, *Personnel Officer*

MISS M. K. ROWLAND, *Personnel Officer*

Currency Division: P. B. WOOSTER, *Chief*

J. U. RANGER, *Deputy Chief*

Public Debt Division: F. M. PETERS, *Chief*

H. W. THOMPSON, *Deputy Chief*

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G. K. BOUEY, *Deputy Chief*

B. J. DRABBLE, *Assistant Chief*

G. E. FREEMAN, *Assistant Chief*

G. S. WATTS, *Special Assistant*

S. V. SUGGETT, *Industrial Research Assistant*

SECURITIES DEPARTMENT

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J. B. MACFARLANE, *Assistant Chief*

A. CLARK, *Assistant Chief*

H. G. GAMMELL, *Toronto Representative*

T. G. BOLAND, *Acting Montreal Representative*

FOREIGN EXCHANGE DEPARTMENT

W. A. CAMERON, *Chief*

P. WATT, *Montreal Representative*

J. C. FRASER, *Toronto Representative*

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•

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Halifax, N.S. . . . G. R. BONNER, *Agent*

Montreal, Que. . . . J. H. C. DESMARAIS, *Agent*
A. HUBERDEAU, *Assistant Agent*

Ottawa, Ont. . . . J. K. FERGUSON, *Agent*

Regina, Sask. . . . W. D. T. SHORTREED, *Agent*

Saint John, N.B. . . . E. L. JOHNSON, *Agent*

Toronto, Ont. . . . R. J. LILLIE, *Agent*
F. H. RUHL, *Assistant Agent*

Vancouver, B.C. . . . W. D. FARRELL, *Agent*

Winnipeg, Man. . . . G. A. IVEY, *Agent*



BANK OF CANADA

**ANNUAL REPORT OF
THE GOVERNOR TO THE
MINISTER OF FINANCE**

AND STATEMENT OF ACCOUNTS

FOR THE YEAR 1957



CANADA

“WHEREAS it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion: Therefore, . . .”

—Preamble to the Bank of Canada Act

BANK OF CANADA

February 28, 1958.

The Hon. Donald M. Fleming, Q.C.,
Minister of Finance,
Ottawa.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act I am transmitting herewith my report for the year 1957, and a statement of the Bank's accounts for this period which is signed and certified in the prescribed manner.

Yours very truly,
J. E. COYNE,
Governor.

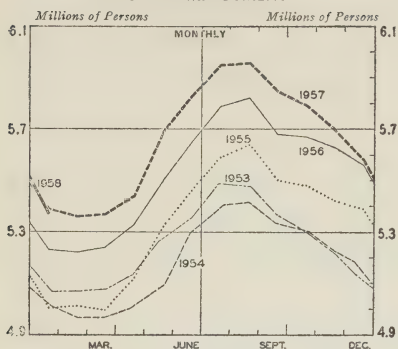
BANK OF CANADA
REPORT OF THE GOVERNOR
1957

This review of economic and financial developments during 1957 will of necessity be largely concerned with the changes which occurred as inflationary pressures moderated in the latter part of the year and monetary conditions became easier. Many factors were present in the chain of events leading up to this change in the economic climate, but the main cause of the change was — as so often in our affairs — of worldwide origin and impact, that is, a levelling off or weakening of world markets for many of our most important products. The process of adjustment, involving production, employment, and in some cases prices, as well as a reduced scale of capital investment, also spread to a number of other sectors of the economy. Monetary policy changed in accordance with these developments. The money supply was expanded rapidly after mid-August, and partly for this reason and partly because of a reduction of demand in certain credit fields, monetary conditions in Canada generally became easier and interest rates declined substantially. The reduction in interest rates began some two to three months before the corresponding movement in the United States, and the loanable funds of the banks, and money supply in general, showed a much greater increase in Canada from August on.

General Economic Developments

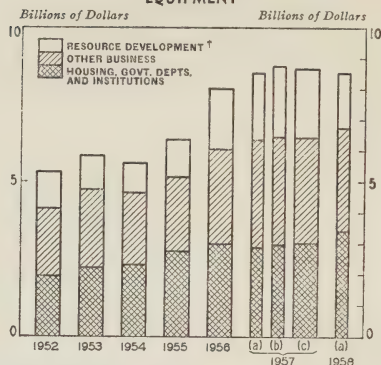
The great upsurge in economic activity which had been the outstanding feature of 1956 continued to dominate the scene in the first part of 1957. The main driving force was the abnormally large scale of investment expenditures on construction, machinery and equipment, especially in industries related to the development of natural resources for export. Expenditures of this type had risen dramatically in 1956, and capital investment intentions for 1957 showed that total planned expenditures for the year were 8 per cent above the record level of the previous year. Reflecting the general business optimism of the period, business inventories also continued to rise — an expansionary influence. In 1956 the intense pressure of demand on Canadian resources pushed up the prices of finished goods and services and drew in goods and services from the rest of the world on a large and increasing scale. During

TOTAL EMPLOYMENT*



*Persons with jobs, Labour Force survey.

PRIVATE AND PUBLIC INVESTMENT IN CONSTRUCTION, MACHINERY AND EQUIPMENT



†Investment closely associated with resource development, including export-oriented basic manufacturing industries and central electric stations.

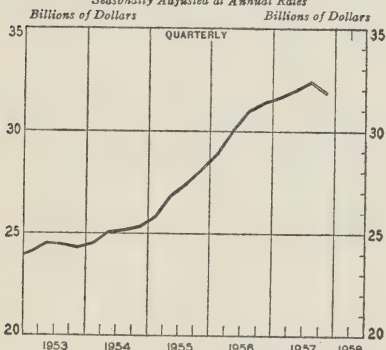
(a) First survey of investment intentions.

(b) Mid-year review of investment intentions.

(c) Preliminary estimate of actual expenditure.

FINAL DOMESTIC DEMAND*

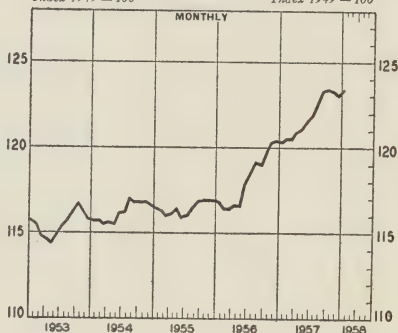
Seasonally Adjusted at Annual Rates



*Total expenditure by consumers and governments, and private expenditure on fixed capital assets.

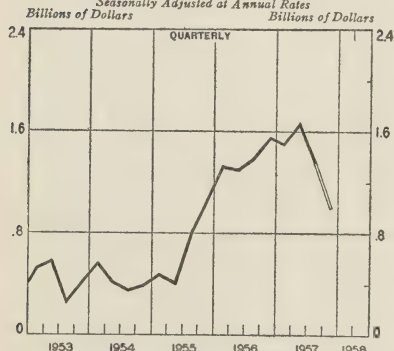
CONSUMER PRICE INDEX

Index 1949 = 100 MONTHLY Index 1949 = 100



BALANCE OF PAYMENTS CURRENT ACCOUNT DEFICIT*

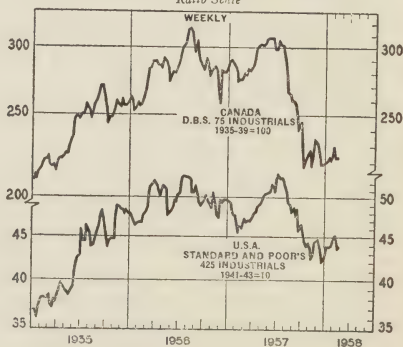
Seasonally Adjusted at Annual Rates



*National Accounts definition.

COMMON STOCK PRICE INDEXES

Ratio Scale



the first part of 1957 the prices of finished goods and services used by the Canadian economy rose at the rate of $2\frac{1}{2}$ per cent per annum, and the excess of imports of goods and services over exports increased to the unprecedented annual rate of over 1.6 billion dollars. Employment continued to grow steadily.

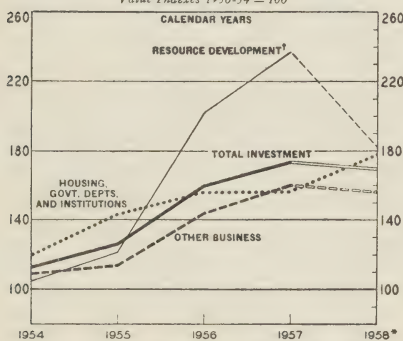
These were some of the signs of continuing growth in economic activity under continuing inflationary pressures. There were also certain adverse developments characteristic of inflationary periods which became more noticeable as the year progressed. The increase in employment was not accompanied by a proportionate increase in the volume of total output. In part this reflected a decline in the average number of hours worked per week, but there was also an appreciable reduction in the statistical measure of average output per man-hour. Average hourly earnings in general continued to rise and this, in combination with the declining trend in output per man-hour, resulted in increased labour costs per unit of output. Competition in external and domestic markets became keener than in 1956, and some Canadian producers found it increasingly difficult to meet domestic and world competition in view of the higher costs they were experiencing. Business profit margins tended to decline. Signs of consumer resistance appeared particularly in relation to durable goods where the rapid expansion of consumer credit and, in some cases, successive and substantial price increases had helped to create at least a temporary saturation of the market. While the combination of rising employment and rising wages caused total labour income to increase steadily until September, and personal income from other sources except farm operations also increased, consumer expenditures on goods and services rose less than proportionately. The rise in expenditures was more or less equalled by the rise in consumer prices, and consumption in physical terms rose only slightly if at all. Consumption of some products increased but sales of automobiles and some lines of household equipment fell below the levels of 1956.

Despite these signs of weakness in certain areas, the total of investment plans continued to rise and the mid-year survey of investment intentions published by the Department of Trade and Commerce in July indicated that the total of investment programmes for the year 1957 had been raised by a further 3 per cent during the preceding six months. Actual total expenditure on fixed investment (both public and private) in the second quarter of 1957 was

almost 30 per cent of total output, an exceptionally high rate by any international comparison and greater by one-half than the rate in the United States. As already mentioned, employment was rising as rapidly as it had in 1956, and continued to do so until October.

Underlying the change in the economic climate as the year progressed was a gradual alteration in the position and prospects of industries engaged in the output of forest and mineral products, particularly lumber, pulp, newsprint, copper, lead, zinc, aluminum, nickel, iron ore and petroleum. World demand had risen rapidly for these products and both the immediate and long-run market outlook for Canadian sources had looked so favourable that additions to productive capacity were undertaken on an enormous scale. Investment outlays on projects associated with resource development rose by two-thirds in 1956 and continued to rise well into 1957. The stimulating effects of this activity were widespread, and much of the investment elsewhere in the economy can be attributed directly or indirectly to the rapid rate of expansion in the export-based resource industries. Resource development was in fact the basic reason for the intensity of the 1955-57 boom in Canada — and for the degree of inflation experienced.

PRIVATE AND PUBLIC INVESTMENT IN
CONSTRUCTION, MACHINERY AND EQUIPMENT
Value Indexes 1950-54 = 100



†Investment closely associated with resource development, including export-oriented basic manufacturing industries and central electric stations.

*First survey of investment intentions.

Before the end of 1956 in a few cases, but much more generally in the course of 1957, world markets for a number of Canada's main products softened. This development reflected primarily the rapid expansion of capacity which was underway in other countries as well as in Canada, but there were other important events on the international scene which affected commodity markets, for example, changes in strategic stock-piling policies and

in defence procurement, sharp movements in ocean freight rates associated with the Suez crisis, a widespread easing in the rate of growth of industrial activity in many countries and some tendencies towards increased trade barriers. Doubts began to arise among Canadian suppliers about the ability of world markets to absorb

the output from further expansions in capacity even in cases where prices held firm and export volume was well maintained.

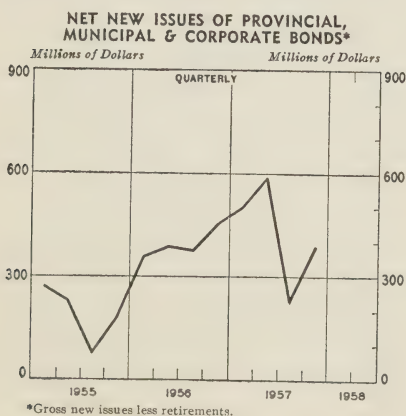
In the second half of the year these developments had an increasing effect on production, employment and income in the industries involved, and they also affected plans for further investment in these and related industries. It had been clear well before the end of 1956 that the expansion of capacity in many of the export-based primary industries was proceeding at a pace which could not continue indefinitely. In response to strong world markets, businesses in Canada and abroad were expanding the capacity of their plants at such a rate that world capacity was increasing more rapidly than the world market for their products could be reasonably expected to grow, and therefore a decline in the rate of expansion was bound to come at some stage. The main effect of the easing of world markets was to bring about an earlier decline in resource investment than would otherwise have occurred.

During the latter part of 1957 the rate of expenditure on resource development tapered off, and planned expenditures of this type for 1958, though still large, are well below the level reached in 1957. The effects of the waning of the boom in the export-based resource industries spread to other parts of the economy in much the same way that its growth had done earlier, and it likewise had a marked effect on imports. The industries supplying machinery, construction materials, transportation and other goods and services to the primary industries saw their markets soften. Employment, output and plant expansion in a number of other industries were also affected in consequence. The mood of optimism about the economic future gave way to one of caution. The domestic retail market particularly for durable consumer goods showed less buoyancy. A reduced level of automobile production contributed to the psychology of recession and housing construction was lower than in 1956 although it was on a rising trend. Inventories that had seemed scarcely adequate in a rapidly expanding market now appeared excessive. Efforts were made to bring inventories down, or at least to check further increases, so that production was affected to a greater extent than was attributable to the trend of final demand. By the latter part of 1957 the economic boom had passed its peak and while employment and production were still high they fell more in the final months of the year than could be accounted for by seasonal movements alone.

In the United States, as in Canada, the 1955-57 boom was characterized by a rising level of business investment, and the same tendencies towards over-rapid expansion of industrial capacity and inventories developed there and had similar consequences. In that country investment expenditures were of course oriented more towards the domestic market, and they were proportionately much smaller than in Canada. The economic situation in the United States was buoyant until after mid-year. After some hesitation in the early months confidence in business prospects strengthened and the stock market rose strongly and steadily from late February into July. Consumer spending, physical output and employment were well maintained through the summer months, and demands for credit remained heavy. In mid-August the Federal Reserve Bank discount rate was increased from 3 per cent to $3\frac{1}{2}$ per cent. But the pressure on physical resources, both immediately and in prospect, was easing and a more cautious attitude became apparent towards the replacement of inventories. A moderate cut-back in defence expenditure occurred in the third quarter. In the final quarter of the year the rate of business investment in plant and equipment began to decline and there was a fairly sharp swing from inventory accumulation to liquidation, with some decline in employment and output.

General Financial Developments

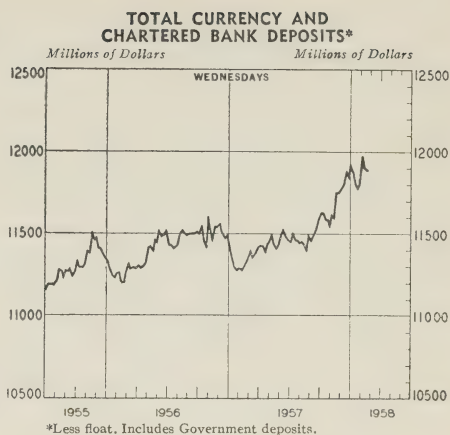
There were substantial changes in monetary and financial conditions in Canada in 1957. During the first half of the year the pressure of demand for money and credit continued to increase.



Although the amounts of money that people in Canada were willing to save and to lend continued to expand, the amounts that others wanted to borrow rose even more rapidly (as in 1955 and 1956). Competition in the market for loanable funds increased and interest rates rose. During the second half of the year there was a sharp change in the balance between supply and demand in

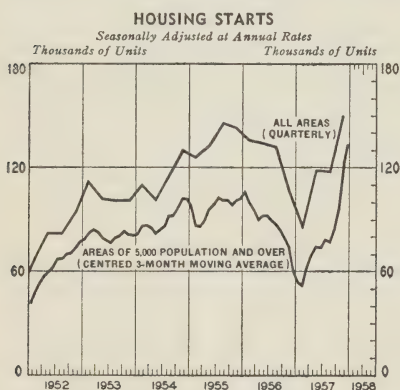
the market for borrowed money. As the trend of over-all spending in the economy levelled off, the central bank accelerated the expansion of the money supply which had been taking place on a moderate scale even during the preceding two years. From July 31 to December 31 the total of currency in circulation and bank deposits increased by \$486 million and the chartered banks' assets increased by \$483 million. Consequently the banks have for some time been in a position to increase their normal lending activity wherever required and to take care of all credit-worthy demands for commercial and personal loans. But in total the demand for bank loans by credit-worthy borrowers levelled off, and most of the increase in the chartered banks' assets has in fact been left in liquid form or placed temporarily in readily realizable investments such as Government of Canada bonds and short-term foreign assets. As monetary conditions eased interest rates fell and by the end of the year yields on all types of bonds had declined substantially from their peak levels in August or September. The "prime rate" of interest on bank loans was reduced by $\frac{1}{4}$ per cent in December, 1957 and again in February, 1958.

In the United States demands for credit remained heavy and financial conditions remained tight through most of the year. As already mentioned, the Federal Reserve discount rate was increased in mid-August from 3 per cent to $3\frac{1}{2}$ per cent (the first increase of as much as $\frac{1}{2}$ per cent in many years). In mid-November the



discount rate was reduced to 3 per cent and a reduction in United States interest rates, which had begun in some areas shortly before, became general. Interest rates in Canada had by then been declining for three months.

As demand in many sectors of the economy abated there were some compensating changes which moderated the effect on the level of employment, income and output in Canada and which also had significance for the capital market. A considerable part of the easing in expenditure which occurred within Canada was offset by a falling trend in imports, which became more pronounced during the latter part of the year. Thus the impact on domestic production of falling demand has been cushioned by declining imports in the same way that the growing strain on resources in the earlier period was moderated by rising imports. Support to domestic



activity was also provided by rising expenditures on residential construction. The trend of activity in house building which declined in 1956, turned upwards in the spring of 1957 and later rose strongly under the additional stimulus of large Government loans initiated in August. The rate of Government expenditures has also been sharply increased, including capital expenditures and loans to local governments and for

housing and other purposes. The increase in federal government direct and guaranteed borrowing requirements for capital and current account, together with the increase in demand for borrowed funds on the part of provinces and municipalities, more or less offsets the decline in the borrowing requirements of private business to finance investments in fixed assets and inventories.

Although final demand for goods and services in the private sector has tapered off, and although declines in some sectors of demand for capital have made conditions easier for other sectors of demand formerly affected by severe competition for funds and by overall shortages of labour and supplies, it still remains the case that actual and potential over-all demand in Canada exceeds actual

and potential capacity for physical production in Canada. As a result there remains in 1958, despite the development of unemployment on a larger scale than has been seen in recent years, an excess (although a smaller excess) of imports of goods and services over exports, and a continuation on a reduced scale of an inflow of capital from abroad which provides the funds with which to pay for the import surplus.

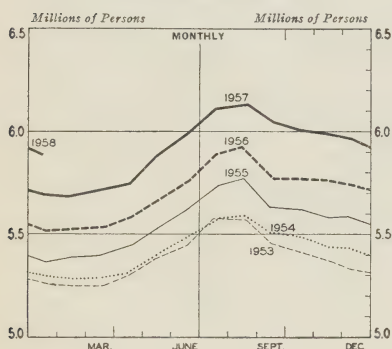
Continuation of the total demand for capital even on the 1958 level means that the requirements of the Canadian economy for capital, in real terms as well as in money terms, will continue to exceed by a considerable margin the overall rate of saving in Canada. The difference must be obtained abroad if the present rate of capital investment is to be maintained. This is not a problem which can be solved by an excessively easy money policy or artificially low interest rates — on the contrary, such monetary developments would discourage the growth of domestic saving and choke off the flow of funds needed to pay for our import surplus. If an early readjustment of the Canadian economy to a lower level of capital investment, i.e. to a lower rate of growth, is not desired, the continuation of a high rate of growth (higher than that in the outside world) requires a sound money policy and an interest rate structure which will encourage both a high level of domestic saving and a sufficient inflow of outside capital to make up whatever deficiency remains.

Labour Force. An important difference between developments in Canada and the United States during 1957 was in the rate of growth of the labour force. Over the twelve months of 1957 the Canadian labour force rose by about 4 per cent, which was almost twice the average annual increase over the four preceding years. This was quite unlike the experience in the United States where the labour force increased by about 1 per cent, or two-thirds of the average increase of the four preceding years. In absolute terms the increase in the labour force in the United States was only slightly more than three times that in Canada, although the United States population is ten times as great.

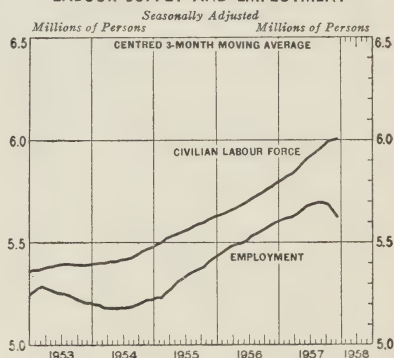
One reason for the unusually large growth in the Canadian labour force in 1957 was the very high rate of immigration. The other principal reason was the persistence of an unusually high participation rate, that is, an unusually high proportion of the population of working age either working or looking for work. Both of these

factors were encouraged by the continuing strong demand for labour, and employment in Canada rose about as much from the beginning of the year to the peak of labour demand in the third quarter as it had the year before. But even this large increase in employment fell short of the growth in the labour force, and after allowance for seasonal movements unemployment (the difference between the total labour force and the number employed) rose through the year from the low levels to which it had fallen in late 1956. In the latter part of the year, the trend in employment turned down and although the growth in the labour force also tapered off, unemployment rose more rapidly.

CIVILIAN LABOUR FORCE



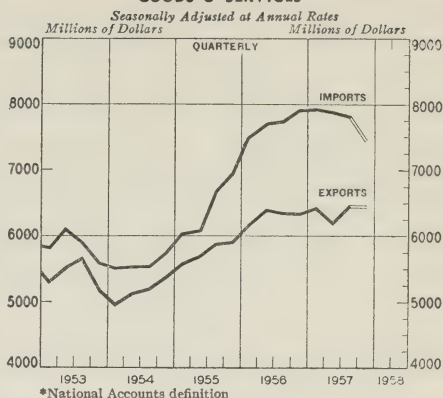
LABOUR SUPPLY AND EMPLOYMENT



Foreign Trade. The total value of commodity exports from Canada was well maintained during 1957 as a whole. After rising in the earlier part of the year exports of forest and mine products lost momentum towards the end of the year due to the weakening of world markets; the main effect of this weakening was that it prevented exports of these commodities from continuing to increase in line with the growing Canadian capacity to produce them, except in the case of uranium where exports continued to rise rapidly. In response to more favourable external markets for certain farm products, notably wheat and cattle, agricultural exports strengthened in the second half of the year. Total commodity exports in the final months of the year after allowance for seasonal movements showed no decline from peak rates. Meanwhile the trend of commodity imports reflected the reversal in the trend of business investment in fixed capital and inventories, and turned downwards. Compared with 1956 there was a marked reduction in the deficit

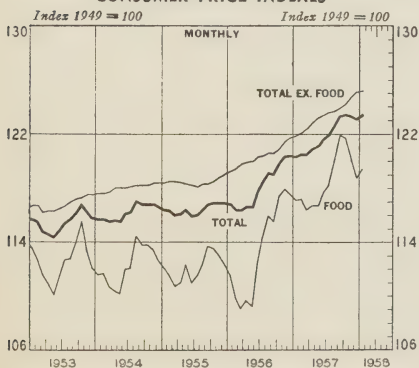
on commodity trade, but there was an equivalent increase in the deficit on other current account transactions, and the over-all deficit on international trade in goods and services for 1957 at \$1,383 million was almost exactly the same as in 1956. The annual rate of the over-all deficit was much in excess of this level in the spring months, and declined in the second half of the year.

EXPORTS AND IMPORTS OF GOODS & SERVICES*

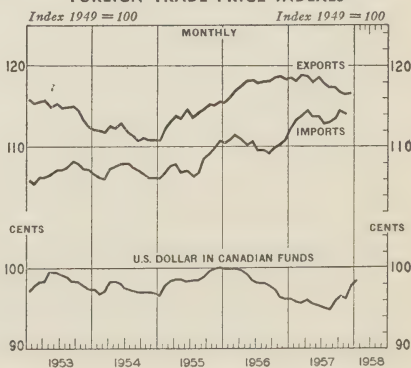


Prices. Price trends during 1957 were more mixed than in the preceding year. Average domestic and export wholesale prices of basic commodities declined, reflecting weakness in external markets for primary industrial materials. The prices of commodity imports, a large proportion of which are finished goods, rose by about 3 per cent during the year, which was about the same increase as during 1956. Market prices of farm products were on the whole a little lower at year-end than at the beginning of the year. Prices of finished goods and of services continued to rise. The average price of goods and services purchased by consumers rose by 2.2 per cent during the twelve months ending December 1957, compared with an increase of 3 per cent during the previous year. The lesser rate of total increase in consumer prices during 1957 resulted from the much smaller rise in food prices; the prices of consumer goods other than foods and of services rose more than they had in the previous year.

CONSUMER PRICE INDEXES



FOREIGN TRADE PRICE INDEXES



Economic Fluctuations, Economic Growth and Monetary Policy

It is not surprising that the recent period of severe inflationary pressures should be followed in Canada, as in other countries, by a period of adjustment or recession, — inflationary pressures inevitably create the kind of distortions which lead to some degree of reaction or recession. There appear to be many different causes of these periodic inflationary booms and subsequent recessions. Some of the more dramatic fluctuations have had sources that were primarily non-economic — wars, threats of wars and major changes in defence programmes. In other cases, surges of economic growth give rise to excessive optimism, and plans for physical expansion of industrial plant and equipment, of resource development and utilities, and of inventories, accelerate to a pace which far exceeds the current capacity to save. Unless adequate preventive measures can be taken, the result is rising prices and costs, and an increase in spending financed by credit on a scale which cannot continue indefinitely. At best the boom may subside in a relatively orderly way; at worst it may build up to such a peak that it can only end in a crash, followed in either case by a period of pessimism and uncertainty while the maladjustments and excesses which have been built up are worked off. The re-adjustments often involve injury to innocent parties,— as in the case also of the price rises and other evils of the boom itself.

During the boom period, inflationary pressures discourage economic efficiency and rising prices do injustice to those in the community whose bargaining power is least. During periods of contraction there is the suffering and waste of unnecessary unemployment, and the often slow process of re-deployment of capital and labour from weaker to stronger fields of activity. It is therefore a major goal of economic policy to endeavour to moderate the scale of fluctuations on either side of the norm of sound economic growth, so far as this can be done without impairing the essential freedom or the dynamic qualities of the economic system as a whole.

It is generally agreed that monetary policy is one of the factors in economic policy which can and should make a contribution towards stability as well as economic growth. This was the view which in 1934 led to the establishment of a central bank in Canada which would, in the words of the Preamble to the Bank of Canada Act, “mitigate by its influence fluctuations in the general level of

production, trade, prices and employment, so far as may be possible within the scope of monetary action”.

The influence of the central bank on the level of economic activity is felt through the effect which it can have on the supply side of the market for borrowed money. Even without action by the central bank, developments in the market for credit tend to be stabilizing in character — borrowed money becomes expensive and more difficult to find during periods of rapidly expanding demand and less expensive and easier to find during periods when demand tends to lag behind the supply of new savings. The first decision involved in monetary policy is clearly to allow this automatic stabilizer to work, the second is whether and when and to what extent to supplement it by central bank action.

While monetary policy can help to moderate economic fluctuations most observers believe that it is more effective in moderating the growth of credit when spending tends to be excessive than it is in stimulating the use of credit beyond a certain point when spending is inadequate. Monetary management affects mainly the supply side of the market for borrowed money and chiefly the supply of loanable funds in the banking system. After money has been made readily available there is not much more the central bank can do to stimulate outlays if spenders and potential borrowers do not see attractive fields for their activities.

During the recent period when the abnormally high demand for money far outran the moderate increase in the rate of saving and the moderate increase in the money supply, the impression seems to have arisen that the money supply was actually being contracted. This was not the case. The supply of money increased and its velocity of circulation rose very substantially. The phrase “tight money policy” may sometimes be used to refer to matters other than monetary matters, such as policy with regard to government taxation, expenditure and lending. To the extent that the phrase might be taken to imply a contraction in the availability of money it is not applicable. In this sense of the phrase there has never been a “tight money policy” in Canada since the establishment of the central bank twenty-three years ago.

There has been what I would call a sound money policy, and I trust there always will be. Circumstances might arise in which a sound money policy might require an actual reduction of the money supply but this has not in fact happened. Even during the 1955-57 period of inflationary pressure there was no policy of reducing the

money supply or of reducing the total volume of bank loans. The banking statistics published by the Bank of Canada each week and each month show clearly that the supply of money continued to expand to a moderate degree even prior to the acceleration which occurred after mid-August 1957 (by "money supply" I mean bank deposits as well as currency in circulation). The total volume of bank loans increased very greatly — much more than the volume of money — as the banks sold Government bonds in large quantities to obtain funds (over and above the increase in their deposits) to make more loans.

Despite this increase in the supply of money and much greater increase in bank loans, an impression of "tight money" arose because of the extraordinarily large increase in demand for money. Undoubtedly some borrowers who felt they had sound projects requiring financing were unable to obtain loans of other people's money at interest rates which they were prepared to pay. This happened in some cases because lenders did not regard these projects as offering an attractive outlet for the funds under their administration, or because other borrowers were willing to pay higher rates of interest if necessary and did in fact succeed in borrowing all of the increased supply of funds that banking institutions, life insurance companies, other lending bodies and private investors had available for lending.

Many complaints of "tight money" appear to relate not to the availability of loanable funds but to the matter of the interest rate — the money was in fact available and was obtained by the borrower making the complaint but he felt he should have been able to get a loan at a lower rate of interest than that which was established by competition. I know of no way in which in a free economy the central bank could prevent interest rates from rising in the face of such a huge increase in demand, except by creating larger and larger quantities of money, far in excess of the amount that could be made available without adding to inflationary pressures. Since inflationary forces of considerable strength arising from non-monetary sources were already operating throughout the economy, such a monetary policy would undoubtedly have resulted in a much greater degree of price inflation than that actually experienced. An already rather hectic boom would have been further aggravated, the over-expansion in certain lines of industry which has now become apparent would have been greater, and the aftermath of the boom would have been a recession of greater degree than anything which now seems likely.

It is sometimes said that monetary policy is a failure because it did not succeed in containing completely the last inflationary surge, nor in preventing any increase in prices, nor in avoiding the present recession. It is not apparent what conclusion this argument leads to, except the absurd one that easier money would have had more anti-inflationary impact. In any case, such a view overlooks the fact that monetary policy is only one of the factors in overall economic policy. It cannot be expected to be the omnipotent controller — nor is it desirable that it should be.

In appraising the administration of monetary policy there will always be questions of timing and degree which are matters of judgment and on which genuine differences of opinion may arise. In relation to the broad sweep of events, however, the weight of evidence and experience is overwhelming that maintaining a moderate rather than an immoderate monetary policy did help to limit the rise in prices and protect the value of our currency, and did help to moderate the excesses of the boom such as the over-expansion of plant capacity and inventories, and has therefore helped to reduce — not to cause or aggravate — the severity of the adjustments which are now taking place. An easier policy, a greater degree of monetary expansion than that which occurred, would have made the boom worse and would have brought on a more serious recession, with a greater degree of unemployment and other dislocations.

There are limits to the role of monetary policy in any free economy, and this applies with particular force to a country so dependent upon foreign trade as Canada. We must view the changing economic conditions in our economy in the context of the vicissitudes of our great trading partners. To a considerable extent, the Canadian boom of 1955-57 and its aftermath were stimulated by the rise and fall in the world's demands for those raw materials which our country is exceptionally well qualified to supply. Many of the investment decisions with regard to resource development in Canada are made by non-resident investors. Much depends on the degree of business optimism outside our borders as well as within Canada. The climate of business opinion within this country is greatly influenced by opinion in the United States, through all the intricate channels of communication which connect our two societies. The extent to which our own economy can be insulated from the forces of inflation or recession operating beyond our borders is thus subject to substantial limitation, even with the

added flexibility which a free exchange rate provides. But this does not absolve us from the necessity of having a monetary policy of our own, in order to minimize the adverse effects of developments abroad and to inhibit the growth of unfavourable fluctuations of domestic origin.

The recession we are now experiencing has not been brought about by monetary policy but, so far as domestic factors are concerned, by the degree of inflation and excessive expansion in certain directions which occurred despite a sound money policy. Most of the difficulties that certain sections of Canadian business are now experiencing arose out of world conditions which had a particularly heavy impact on highly specialized and rapidly expanding Canadian export industries. "Tight money" in Canada did not cause the world price of copper, lead and zinc to decline to such an extent as to cause a reduction in employment and the shutting down of some mines. It was no lack of availability of money in Canada that caused the reduction in United Kingdom and United States imports of lumber and the resulting cut-back of production in the Canadian west coast lumber industry. And clearly "tight money" in Canada (or elsewhere) did not create the condition of worldwide excess capacity in pulp and paper production and in aluminum production which is now causing difficulties for Canadian producers.

Likewise, the declines in housing activity and automobile production in Canada, though presumably of domestic origin, were not attributable to monetary policy or anything in the nature of credit restrictions. It is perhaps not recognized that in these fields the slow-down in Canada came much later than in the United States and the United Kingdom where monetary problems were more or less similar to those in Canada. Housing began to decline in both the United Kingdom and the United States early in 1955; in Canada no noticeable decline occurred until the summer of 1956. Although the banks temporarily curtailed their mortgage lending, they resumed a normal level of lending in this field in the second quarter of 1957. The main drop in housing loans occurred in the case of other lenders, for reasons unconnected with monetary policy, as mentioned below.

Similarly, the great automobile boom, aided by extraordinary increases in consumer credit and relaxation of the terms of such credit, reached a peak in the United States in 1955 and showed a sharp decline in 1956 and a further decline since. In Canada, although 1955 was a record year, 1956 was still better, and no

significant decline in automobile sales occurred until well into 1957. At no time has there been any serious difficulty in the supply of funds through instalment finance companies to finance the purchase of new or used cars, although Canadian consumers and lenders alike have at all times shown a more prudent regard for sound credit practices than has been apparent in the United States.

By its nature monetary policy must be directed towards the condition of the economy as a whole. It is understandable, however, that much of the discussion about it has related to its bearing on particular situations, such as the position — under the recent conditions of excessive over-all demand — of local governments, of housing, of certain economic regions, and of small business.

So far as the first and second of these are concerned, bank loans to municipal and provincial governments increased in 1957 and bank approvals of insured residential mortgage loans were as great in 1957 as in 1956. The problems of those concerned arose from competition for funds in securities markets and from the decisions made by various categories of non-bank investors as to how to lay out their funds. The total of funds available to these investors was growing but they chose to invest a smaller proportion of the total, and indeed a smaller absolute amount, in housing mortgages and local government securities and a larger proportion of the total, and a larger absolute amount, in other investments which they found more attractive, particularly the purchase of new issues of corporation stocks and bonds. These new corporate issues and the demand for money which gave rise to them reflected the competition for available resources at a time when the increase in total investment plans greatly exceeded the growth of domestic saving.

Discussion of the position of certain economic regions has given rise to the suggestion that monetary policy should not be the same throughout the country but should be modified in some way to the advantage of those regions which were not showing the same degree of economic growth as others. It is not possible for monetary policy to operate differentially under our present statutes and banking arrangements, and a major change would be necessary before it could do so. The national branch banking system and the national capital market would have to be broken down into regional systems with some kind of control established to compel funds to be invested in, and to be transferred to, and to prevent funds from moving freely out of, a region where interest rates were

being held down (as has been advocated) as compared with other regions where interest rates were permitted to rise under the influence of demand. Reference is sometimes made to the fact that there are twelve Federal Reserve banks in the United States. This regional organization arose from the circumstance that banking in the United States is conducted by unit and regional banks rather than by banks with nation-wide branch systems. Even so, central bank interest rates tend to be uniform. Differences between the discount rates of the twelve Federal Reserve banks sometimes arise when the discount rates in the system are rising or falling but the differences arise chiefly from the timing of board meetings and rarely last for more than a week or two. The much more important matters of open market policy and operations have always been decided and carried out on a national basis, without any kind of regional differentiation. The regional organization of banking in the United States has not in fact given rise to regional differences in monetary policy, and could not do so without major interference with the freedom of decision of banks and investors.

The matter of providing adequate finance for small business — with which I would include the requirements of farmers and professional groups as well as the needs of ordinary individuals for personal loans for non-speculative purposes — seems to me to be one of great importance. During 1957, as in 1956, we have in discussions with the chartered banks expressed concern for the position of these small borrowers. We have been assured by the banks that there was no discrimination against such borrowers. As regards the present position, following the substantial easing of monetary conditions which has occurred since August there can be no doubt of the banks' ability to expand their loans to small businesses, institutions, farmers and individuals to the full extent that there may be any unsatisfied credit-worthy demand in those fields, and indeed in any field of normal bank lending and investing.

While the experience of the recent inflationary period is freshly in mind it may be useful to consider one possibility in this connection. If and when inflationary conditions appear again and the increase in the demand for money outruns the increase in total saving, there will be strong competition for loanable funds. Even if small borrowers are assured of non-discriminatory treatment by the banks they may be handicapped relative to large borrowers. Small borrowers cannot supplement their use of bank credit by selling new issues of their securities in the market. Small business

depends more on the banks, and must turn to the banks for increased accommodation when business is expanding. It would, I think, be desirable that whenever the banks find it necessary to allocate their resources in the face of excessive total demand they should limit the rationing process to the field of large loans, and should make it clear that this was the case. The first call on the resources of the national branch banking system must, I think, be to fill the credit-worthy needs for banking accommodation of small businesses, institutions, farmers and individuals — including a reasonable level of loans for housing — in all the various localities across Canada. This approach is feasible because the funds required to meet such needs are small in relation to the total resources of the chartered banks. The banks will always have very substantial additional resources to make available in flexible amounts for loans to large enterprises, — enterprises which can and do also obtain funds from non-bank sources and can vary their proportion of bank debt to non-bank debt as the circumstances may require. The experience of the past two or three years suggests that much misunderstanding and difficulty would be avoided in future if it could be made clear that changing economic and financial conditions did not affect the banks' willingness and ability to accommodate credit-worthy small borrowers.

I should add that in my opinion the main financial difficulty of small business is not in obtaining working capital but in obtaining sufficient equity capital and fixed capital. In this connection, a large number of small firms are being assisted through the operations of the Industrial Development Bank, which was established in 1944 to provide medium-term capital loans to credit-worthy industrial enterprises. Such loans are quite unlike, and are no substitute for, the working capital loans extended by the chartered banks. The scale of the Industrial Development Bank's lending has grown steadily. In its last fiscal year it approved 391 new loans of which over 60 per cent were for amounts of less than \$50,000, and nearly one-half were in the Atlantic and Western provinces. The total amount outstanding or committed at February 28, 1958 was \$95 million. As the facilities of the Industrial Development Bank become more widely known and used it can make an increasing contribution to meeting the capital financing problems of small businesses.

To revert to the role of over-all monetary policy, I am sure there is no contradiction between the objective of seeking to damp down

the amplitude of periodic economic fluctuations and the objective of seeking to promote maximum economic growth over the long run. Economic expansion is much more likely to be efficient and to be sustainable when it takes place within an economy which is in over-all balance. In a free economy we rely heavily upon the price system to ensure efficiency in the allocation of economic resources and the price system works best when the value of money is stable. Economic distortions are less likely to occur and economic indigestion is less likely to develop if we can avoid hectic sessions of trying to expand too fast, and can maintain the value of money. Above all, economic growth will be greatly assisted if we can, by restraining inflation, moderate the recessions or depressions that inevitably follow periods in which inflationary forces have gathered strength.

The object of a sound money policy as I understand it is not to prevent economic expansion but to encourage economic growth on a sound basis, not to slow down economic activity but to provide the conditions in which a high level of economic activity can continue indefinitely or with only moderate fluctuations instead of in sharp inflationary spurts followed by recessions. Insofar as monetary management is concerned there is no conflict between the goals of economic balance and economic growth. Quite the reverse. Any success achieved in maintaining economic conditions conducive to stability in employment, output and prices will improve the prospects of maximum long-term economic growth.

It must be recognized that continuous balance and a completely steady rate of growth is never likely to be reached in a free society. It certainly cannot be reached by monetary policy alone, nor, probably, by even the best combination of economic policies—monetary, fiscal, regulatory, etc.—which can be devised. Our economic system is too complex, the instruments of economic policy are in their nature too blunt, and the judgments involved are too difficult to expect perfection to be achieved. On the basis of past experience it is clear that tendencies towards short-term instability in the economy are strong, and containing them will always be difficult. So far as the contribution of monetary policy is concerned one would hope that it will continue to be exerted in the right direction at broadly the right time as varying conditions will require. One would also hope that the tools of monetary policy, and their use, can be improved as the result of developing experience.

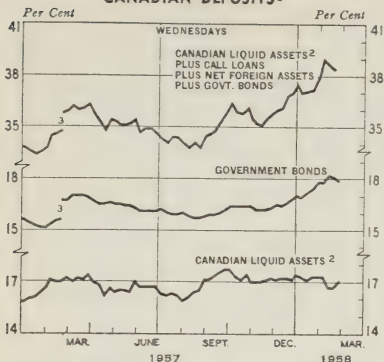
In retrospect it is clear that throughout the western world since the end of the second world war the dangers of inflation have been under-estimated. Partly as a legacy of the deepest and longest depression on record, and partly because the full rigours of the cold war were not foreseen or quickly realized, it was too easily accepted that the economic system had a natural tendency towards deflation and that the threat of inflation would at most be sporadic and mild. So far events have shown the opposite tendency prevailing. The bias of the economy of the western world has been inflationary and it is the brief periods when basic inflationary forces have not been dominant that have been the exception. It would be unwise to conclude that this underlying inflationary bias has disappeared, even though the immediate condition in some parts of the western world may be one of stationary or declining activity.

Under present circumstances, of course, the objective of monetary policy should be — and is — to encourage and assist an increase in economic activity. This is the reason for the substantial monetary expansion that has taken place in Canada since last August. At the same time policy must have regard to the needs of the future. If increases in the availability of credit and reductions in its cost are pushed beyond reasonable limits, little further will be achieved by way of encouraging economic expansion, but the undue increase in the liquidity of the economy will set the stage for further declines in the value of money in the future and reduce the stabilizing influence that monetary policy can have. Excessive monetary expansion would to that extent neutralize the monetary instrument as a means of moderating economic fluctuations in the future.

If it were certain that we were headed for a severe and prolonged depression in Canada the neutralizing of monetary policy for the future might not matter so much, but I believe there are few who see our economic future in terms so bleak, and I am certainly not one of them. Just as there was a marked tendency to be over-optimistic about the future during the recent boom so there is at the present time a tendency to be over-pessimistic. I believe we can assume with confidence that by and large the western world will so manage its affairs as to provide a favourable climate for economic development, and I am a confirmed optimist about Canada's economic future. It will continue to be the objective of the central bank to do everything possible within its field to help Canada's great potential to be fully realized.

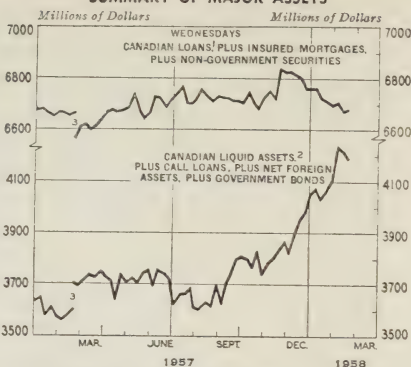
CHARTERED BANKS

RATIO OF CERTAIN ASSETS TO CANADIAN DEPOSITS¹



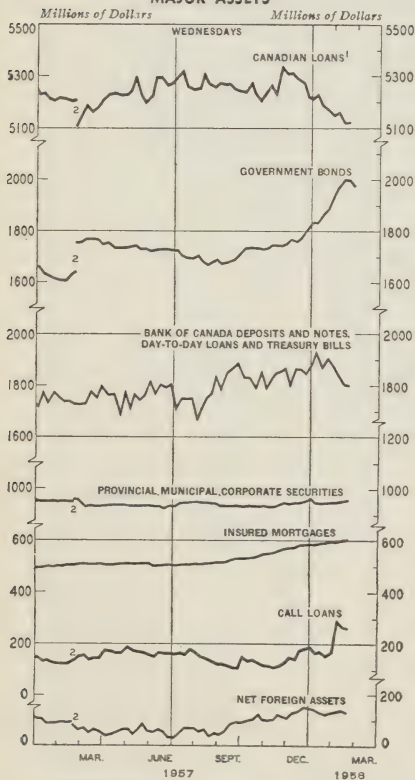
1. Calculated on the statutory basis.
2. Cash reserves on statutory basis, day-to-day loans, treasury bills.
3. Comparability of series affected by change in valuation of securities and consequent reallocation of reserves.

SUMMARY OF MAJOR ASSETS



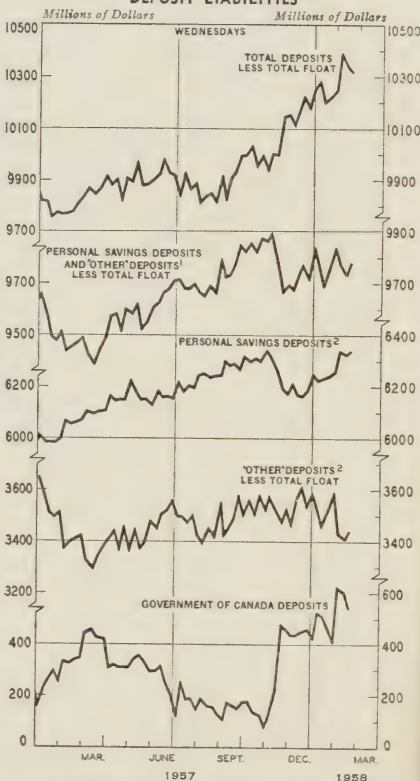
1. Excluding day-to-day and call loans.
2. Bank of Canada notes and deposits, day-to-day loans and treasury bills.
3. Comparability of series affected by change in valuation of securities and consequent reallocation of reserves.

MAJOR ASSETS



1. Excluding day-to-day and call loans.
2. See footnote 3 above.

DEPOSIT LIABILITIES



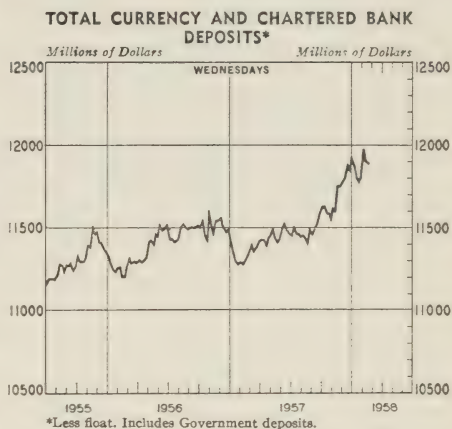
1. Excludes Government of Canada deposits.
2. Adjusted for reclassification of certain savings deposits at Sept. 30, 1957.

Monetary and Banking Developments

Monetary policy changed as the economic boom levelled off in the second half of 1957 and action was taken by the central bank to accelerate the rate of increase in the money supply. In the period from July 31, 1957 to December 31, 1957 the chartered banks were able to expand their total assets by \$483 million and the total of currency in circulation and bank deposits increased by \$486 million.

Initially the cash reserve position of the chartered banks was eased through the purchase of Government securities in the market by the Bank of Canada. The chartered banks then began to build up their holdings of day-to-day loans and treasury bills together with their other relatively liquid assets, chiefly call loans, net foreign assets and Government bonds. From July 31, 1957 to December 31, 1957 their holdings of cash, day-to-day loans and treasury bills rose by \$211 million, call loans by \$20 million, net foreign assets by \$77 million and Government bonds by \$130 million. The total of all of these relatively liquid assets increased by \$438 million and by February 19th, 1958 the increase was \$577 million. For each of the months since August the ratio of liquid assets (cash, day-to-day loans and treasury bills) to deposit liabilities was more than 17 per cent. At this level the chartered banks' liquid assets were more than \$200 million in excess of what was needed for the 15 per cent ratio which they observe by agreement as a minimum on a monthly averaging basis. The substantial increase in the liquidity of the chartered banks and the growth in their assets following relative stability earlier in the year is shown in the charts at the top of the facing page.

In the latter part of the year the growth in the chartered banks' resources was such that they could have increased their loans considerably without disposing of other assets if sufficient credit-worthy demand for accommodation had been present, but since



Chartered Banks: Changes in Major Assets and Deposit Liabilities

(month-end figures—millions of dollars)

Chartered Bank Assets	As at Dec. 31, 1957	Changes ⁽¹⁾			
		Calendar Year		July 31 to Dec. 31	
		1956	1957	1956	1957
Bank of Canada notes and deposits	866	42	-16	77	71
Day-to-day loans	210	-7	136	-35	129
Treasury bills	805	313	65	-2	11
Sub-total	1,881	348	185	40	211
Government bonds	1,835	-957	44	-218	130
Call loans	191	-20	35	-30	20
Net foreign assets ⁽²⁾	143	6	41	40	77
Total of foregoing assets	4,050	-623	305	-168	438
Canadian loans (other than day-to-day and call loans)	5,214	532	114	125	-42
Insured mortgages	586	199	93	81	77
Non-Government securities	962	-58	-8	-41	10
Total of above assets	10,812	50	504	-3	483
Chartered Bank Deposits					
Personal savings deposits	6,248	374	241	84	6
Government deposits	423	-271	177	-33	275
"Other" deposits (less float)	3,585	-117	5	-88	159
Total deposits (less float)	10,256	-14	423	-37	440
Float	1,151	328	-179	494	322
Total deposits (before deduction of float)	11,407	314	244	457	762

(1) To make the statistics for the different periods in this table comparable certain approximate adjustments have been made in calculating changes in loans, investments and deposits. The 1956 figures have been adjusted for the reclassification of foreign currency loans from Canadian loans to net foreign assets which was made in the returns of the banks to the Department of Finance. The 1957 changes in assets have been adjusted approximately for the change in inner reserves consequent upon the change in the method of valuing Government and provincial securities required in the returns of the banks to the Department of Finance. The 1957 figures for personal savings deposits and "all other" deposits have been adjusted for the reclassification at September 30, 1957 of approximately \$140 million of institutional and personal business accounts from personal savings deposits to other notice deposits in the returns of the banks to the Department of Finance. No adjustment has been made for the reclassification of certain personal savings deposits following the introduction of "personal chequing" accounts in mid-1957.

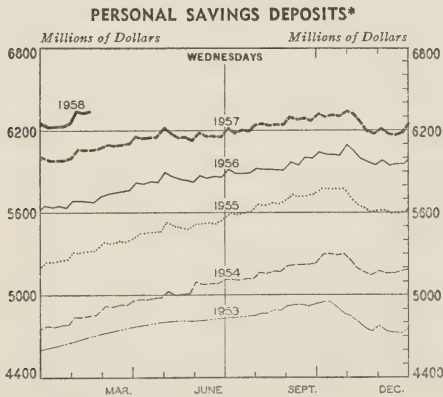
(2) Total foreign currency assets less total foreign currency liabilities. Excludes foreign currency securities issued by Canadian borrowers.

October the trend of bank loans, in total, after allowance for seasonal changes, has been if anything downward. Changes in the major assets and liabilities of the chartered banks and in the money supply are shown in the charts on page 24 and the tables on the facing page and below.

Currency and Chartered Bank Deposits
(month-end figures—millions of dollars)

	As at Dec. 31, 1957	Changes			
		Calendar Year		July 31 to Dec. 31	
		1956	1957	1956	1957
Currency outside banks (notes and coin) . . .	1,667	55	62	44	46
Deposits held by the general public (other than personal savings deposits) ^{(1) (2)} . . .	3,585	—117	5	—88	159
Government deposits . . .	423	—271	177	—33	275
Personal savings deposits ⁽²⁾	6,248	374	241	84	6
Total currency and chartered bank deposits ⁽¹⁾ . . .	11,923	41	485	7	486

- (1) Less total float.
- (2) The 1957 figures for personal savings deposits and "all other" deposits have been adjusted for the reclassification at September 30, 1957 of approximately \$140 million of institutional and personal business accounts from personal savings deposits to other notice deposits in the returns of the banks to the Department of Finance. No adjustment has been made for the reclassification of certain personal savings deposits following the introduction of "personal chequing" accounts in mid-1957.



*See footnote 2 above.

In the early months of 1957 the chartered banks had virtually withdrawn from the field of insured residential mortgage lending, after having approved loans on 16,000 units in 1956, 34,000 units in 1955 and 17,000 units in 1954. Their mortgage disbursements continued in considerable volume on loans which had been approved earlier, but their new approvals in the first quarter of 1957 covered only 400 units, representing a decline of 86 per cent from the level of their approvals in the first quarter of 1956.

In discussing this situation with the chartered banks I expressed the view that they should maintain continuity in mortgage lending as an important field of investment for savings entrusted to them. At a meeting in March the banks agreed to resume operations in this field on much the same scale as in 1956, the objective being new housing loans in 1957 in a total amount of not less than \$150 million, involving approximately 15,000 units; the Bank of Canada indicated that the total resources of the banks as a group could be expected to increase during 1957 by an amount at least great enough to take care of their disbursements on mortgage loans in that year, so that it would not be necessary for the banks to dispose of other assets in order to maintain a flow of funds for insured housing loans. In the event, the banks approved 15,700 mortgage loans during 1957 valued at \$173 million and their net mortgage disbursements, after sales of \$41 million and repayments of about \$10 million, amounted to \$93 million, while their savings deposits increased by \$241 million and their total resources increased by \$504 million over the calendar year.

In 1957 the chartered banks did not increase their holdings of corporate securities. Their unavailed-of commitments to make term loans and to purchase corporate securities, which had been more than \$400 million late in 1955 and more than \$200 million at the end of 1956, declined to \$50 million at the end of 1957. This reflects the results of the 1955 agreement to cease making large term loans which, it will be recalled, applied only to loans to business corporations, in amounts exceeding \$250,000 where the time of repayment is deferred beyond that of ordinary loans and to the equivalent kind of securities transactions, i.e. the purchase of a security from a business corporation in an amount exceeding \$250,000 which was negotiated directly with the customer, as distinct from buying a publicly issued security in the market.

In February, 1958, the term-loan agreement was reviewed with the chartered banks and the maximum raised from \$250,000 to

\$1,000,000. At the same time the banks removed the limitations on lines of credit to instalment finance companies which had been put into effect in 1955 and 1956.

Central bank advances to the chartered and savings banks were less important in 1957 than in 1956. Advances were outstanding on 59 days compared with 105 days in 1956; the maximum outstanding on any one day was \$30 million. The Bank of Canada held securities purchased from money market dealers under resale agreements on 103 days during the year, against 62 days in 1956. The maximum outstanding on any one day was \$59 million. Bank Rate, the minimum rate at which the Bank makes advances and provides funds to money market dealers through purchase and resale agreements, rose from 3.92 per cent at the end of 1956 to a high of 4.33 per cent in August and then declined to 3.87 per cent at year-end, and to 3.11 per cent by the date of this report. It has continued to be set each week at $\frac{1}{4}$ of 1 per cent above the average tender rate on treasury bills.

A change in technical procedure was made in December, 1957, which may be of interest to monetary analysts. In past years the Bank purchased each December in the market a large volume of Government securities in order to offset the restrictive effect on the cash reserves of the chartered banks of the sharp pre-Christmas rise in the amount of Bank of Canada notes in circulation. In order to reduce the magnitude of the seasonal fluctuation in its security transactions, in 1957 the Bank paid over its profits to the Government in instalments during the month of December; these payments, when transferred to the Government's accounts with the chartered banks, had the same effect on total cash reserves as Bank purchases of securities.

Changes in technical procedure were made during 1957 in connection with the method of effecting settlements between the Bank of Canada and the chartered banks. A new system was also established for making settlement for Government revenue and expenditure items at all Bank of Canada agency points rather than solely at Ottawa as previously. These changes provided the banks with additional time, and a more accurate statistical basis, for determining their action to adjust their reserve positions through operations in day-to-day loans or security transactions in the market. The use of Bank of Canada (same day) funds has now been eliminated except in relation to deposits or withdrawals of currency and

the making or repayment of advances. All other transactions are now settled in clearing house (next day) funds.

Reference should also be made to one other matter of a technical nature, namely, the interpretation of statistical information on the cash reserves and cash reserve ratios of the chartered banks. These statistics, taken by themselves, do not provide any indication of the ease or tightness of monetary conditions. Regardless of monetary conditions, the chartered banks must maintain average cash reserves equal to at least the statutory minimum requirement, and the important consideration is not so much the actual level of average cash reserves or cash ratio as the variations effected in other assets, particularly their more liquid assets, in order to meet the minimum requirements.

As an illustration of other difficulties in interpreting cash reserve data, it may be noted that monetary conditions were easing in December, 1957 and the total assets of the chartered banks were rising, averaging \$295 million above December, 1956, yet average cash reserves were \$11 million lower than in December, 1956. This comparison shows that cash reserves and total assets may not move evenly together. One reason is that the difference between the minimum requirement and actual reserves may vary considerably; in December, 1956 cash reserves averaged \$34 million above the minimum whereas in December, 1957, even though monetary conditions were much easier, this difference was only \$20 million. Another reason is that changes in the minimum cash reserve requirement lag behind changes in the total deposits (and assets) of the chartered banks because the deposit liabilities on which the minimum requirement is based are calculated not on a current basis but (in accordance with the Bank Act) as the average of the four consecutive Wednesdays ending with the second last Wednesday in the preceding month. Thus, the rise in deposit liabilities on the statutory basis from December, 1956 to December, 1957 was only \$32 million while actual deposit liabilities rose by \$262 million (on a monthly average basis) and total assets by \$295 million.

Interest Rates. Reflecting the general easing in monetary conditions, market interest rates began to fall in August and have declined substantially since then. The table and chart on the facing page and the chart on page 32 show the trend of interest rates during the past year.

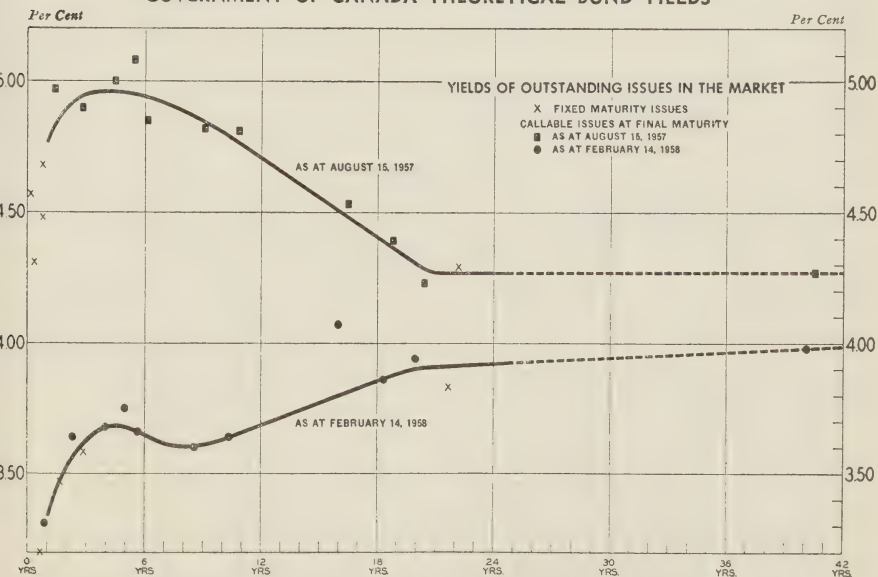
Interest Rates

(per cent per annum)

	Dec. 31 1956	High 1957	Dec. 31 1957	Feb. 14 1958
Day-to-day bank loans (closing rate)	3	4 $\frac{1}{8}$	3 $\frac{1}{4}$	2 $\frac{3}{4}$ ⁽²⁾
Three-month treasury bills ⁽¹⁾	3.67	4.08	3.62	2.86 ⁽²⁾
Chartered banks prime commercial loan rate	5 $\frac{1}{2}$	5 $\frac{3}{4}$	5 $\frac{1}{2}$	5 $\frac{1}{4}$ ⁽³⁾
Government bond yields ⁽⁴⁾				
one year	4.41	4.83	3.77	3.34
two year	4.56	4.94	3.85	3.53
five year	4.60	4.95	3.91	3.68
ten year	4.10	4.81	3.70	3.63
twenty year	4.00	4.34	3.78	3.90
Other long-term bond yields ⁽⁵⁾				
10 provincials	5.03	5.18	4.60	4.51
10 municipals	5.45	5.77	5.12	4.98
10 industrials	5.22	5.77	5.04	4.99
Savings Deposits				
Chartered banks	2 $\frac{1}{2}$	2 $\frac{3}{4}$	2 $\frac{3}{4}$	2 $\frac{3}{4}$
Trust companies (typical rate)	3	3 $\frac{1}{4}$	3 $\frac{1}{4}$	3 $\frac{1}{4}$
Trust company investment certificates (1 year)	4-4 $\frac{1}{2}$	4 $\frac{1}{2}$ -5	4 $\frac{1}{4}$ -5	4-4 $\frac{1}{2}$

(1) Average rate of successful bids at most recent tender. (2) As at February 28, 1958. (3) Effective February 17, 1958. (4) Yields on theoretical bonds. (5) Source: McLeod, Young, Weir & Company Limited; figures for February 14, 1958 are Bank of Canada estimates.

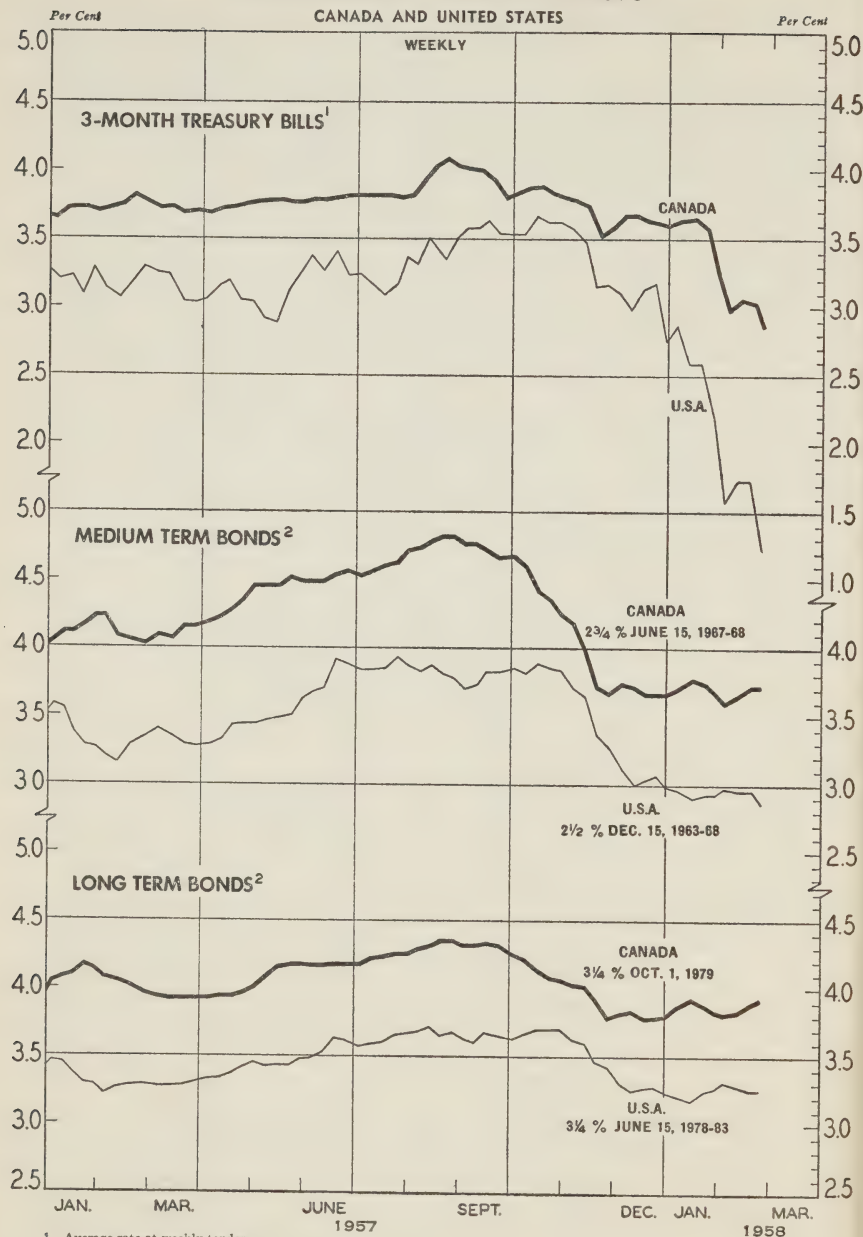
GOVERNMENT OF CANADA THEORETICAL BOND YIELDS*



*Free-hand theoretical yield curves which take into account certain qualitative differences in outstanding issues.

GOVERNMENT SECURITY YIELDS

CANADA AND UNITED STATES



1. Average rate at weekly tender.
2. Based on Wednesday closing bid prices.

Consumer Credit. In 1957 the net increase in credit extended to consumers by finance companies and retail dealers amounted to \$66 million compared to \$281 million in 1956. Of this increase in credit in 1957, \$26 million was supplied by instalment finance companies, \$12 million by small loan companies, \$19 million by department stores and \$9 million by other retail dealers. Except for home improvement loans which continued to rise, chartered bank personal loans declined over the year.

Finance Company and Retail Dealer Credit Extended to Consumers

(Balances outstanding in millions of dollars)

	<u>Instalment Finance Companies</u>	<u>Small Loan Companies</u>	<u>Depart- ment Stores</u>	<u>Other Retail Dealers</u>	<u>Total Finance Companies and Retail Dealers</u>
1953—Dec. 31	516	176	167	457	1,316
1954—Dec. 31	492	215	186	499	1,392
1955—Dec. 31	599	279	227	524	1,629
1956—Mar. 31	596	297	200	492	1,585
June 30	703	326	206	500	1,735
Sept. 30	775	340	210	516	1,841
Dec. 31	756	356	244	554	1,910
1957—Mar. 31	736	348	214	518	1,816
June 30	796	356	221	528	1,901
Sept. 30	821	357	221	539	1,938
Dec. 31	782	368	263 ⁽¹⁾	563 ⁽¹⁾	1,976 ⁽¹⁾

Selected Loans Extended Mainly to Individuals for Non-Business Purposes by Certain Financial Institutions

(Balances outstanding in millions of dollars)

	<u>Chartered Banks Personal Loans</u>			<u>Quebec Savings Banks</u>	<u>Life Insurance Companies' Policy Loans</u>	<u>Credit Unions</u>
	<u>Fully Secured by Marketable Bonds & Stocks</u>	<u>Home Improvement Loans</u>	<u>Other</u>			
1953—Dec. 31	269	—	308	8	225	129
1954—Dec. 31	253	—	352	7	240	151
1955—Dec. 31	339	24	441	8	250	174
1956—Mar. 31	363	26	443	9	253	(2)
June 30	368	31	455	8	260	(2)
Sept. 30	343	36	444	9	266	(2)
Dec. 31	313	38	435	11	270	219
1957—Mar. 31	290	39	416	14	277	(2)
June 30	293	41	428	11	283	(2)
Sept. 30	282	46	420	11	289	(2)
Dec. 31	257	48	421	13	292	(2)

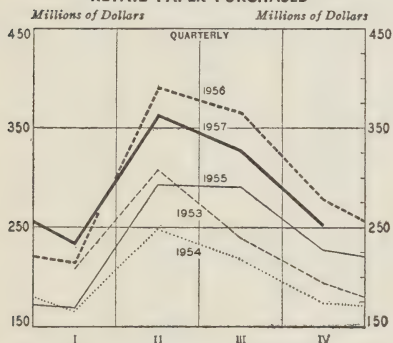
(1) Preliminary estimates. (2) Not available.

Instalment Finance Companies. The net amount of credit provided by instalment finance companies for retail financing rose by \$24 million in 1957 compared to \$244 million in 1956. The total amount of retail paper purchased in 1957 was less than the previous year by \$73 million or 6 per cent while repayments increased by \$147 million or 15 per cent. The net increase in credit outstanding on consumers' goods in 1957 amounted to \$26 million compared to an increase of \$157 million in 1956, while there was a net decline of \$2 million in the amount of retail credit provided for financing commercial and industrial goods compared to an increase of \$87 million in 1956.

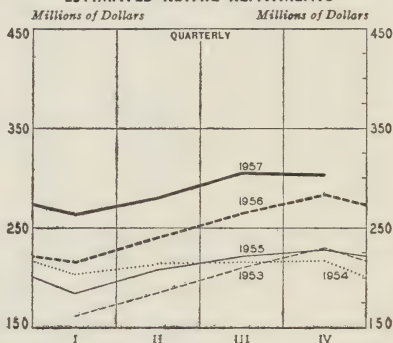
There was an increase of \$25 million in credit outstanding in wholesale financing so that the total outstanding amount of credit from instalment finance companies increased by \$49 million. Funds were obtained by these companies through the sale of \$75 million

INSTALMENT FINANCE COMPANIES

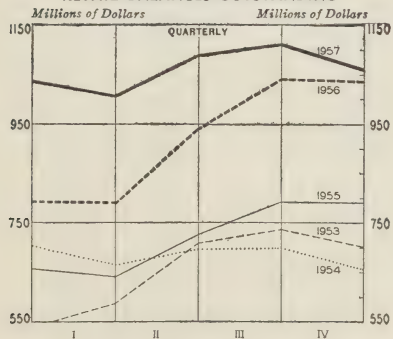
RETAIL PAPER PURCHASED



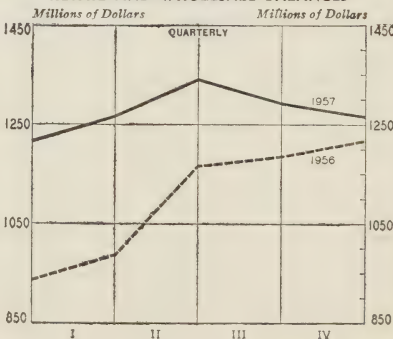
ESTIMATED RETAIL REPAYMENTS



RETAIL BALANCES OUTSTANDING



RETAIL AND WHOLESALE BALANCES

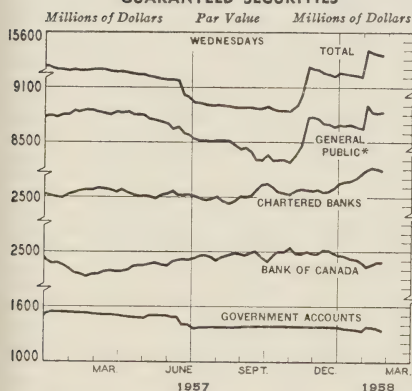


(net) of bonds and stocks and an increase of about \$50 million in the total amount of short-term notes outstanding while their bank loans were reduced substantially.

Securities Market. The total amount of Government direct and guaranteed securities outstanding declined by \$69 million in 1957 as compared with a reduction of \$766 million in 1956. The outstanding treasury bill issue increased by \$50 million and Canada Savings Bonds by \$108 million while the total of other issues declined by \$227 million during 1957.

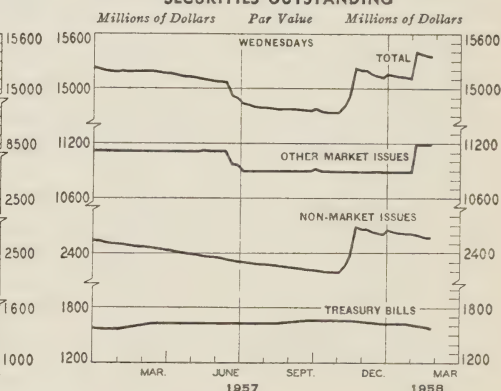
Changes in the distribution of Government securities by types of issue and by categories of holders are shown in the charts below and the table on page 36. The chartered banks were net sellers of Government securities until August 1957 but from that month on they were net buyers. Life insurance companies continued to be net sellers of Government securities throughout the year but on a smaller scale than in 1956 and the reduction in non-resident holdings was somewhat less than in the previous year.

**DISTRIBUTION OF HOLDINGS OF
GOVERNMENT DIRECT AND
GUARANTEED SECURITIES**



*Includes investment dealers.

**CLASSIFICATION OF GOVERNMENT
DIRECT AND GUARANTEED
SECURITIES OUTSTANDING**



The total amount of new money obtained in the bond market by provinces, municipalities, corporations and institutions continued to rise in 1957, reaching a peak in the second quarter. New borrowings by provinces and municipalities also increased in the second half of the year but new issues by corporations declined. For the year as a whole provinces, municipalities, corporations and institutions obtained \$1,708 million of new money in the bond market

Distribution of Holdings of Government Direct and Guaranteed Securities

(par values—millions of dollars)

	As at Dec. 31, 1957	Increase or Decrease					
		1Q	1957			1957 Total	1956 Total
			2Q	3Q	4Q		
Bank of Canada							
Treasury bills	469	-27	42	-92	39	-38	243
Treasury notes	—	—	—	—	—	—	-500
Other market issues . .	1,994	-111	81	93	12	75	267
Total	2,463	-138	123	1	51	37	10
Chartered Banks (est.)							
Treasury bills	808	65	-21	131	110	65	315
Other market issues . .	1,835	-26	-22	-24	116	44	-913
Total	2,643	39	-43	107	6	109	-598
Government Accounts							
Unemployment Ins. Fund							
Treasury bills	57	-31	—	6	51	26	—
Other market issues . .	818	-15	-24	21	-57	-75	41
Total	875	-46	-24	27	-6	-49	41
Securities Investment Account							
Treasury bills	—	—	—	—	—	—	—
Other market issues . .	—	22	-182	—	—	-160	-40
Total	—	22	-182	—	—	-160	-40
Other Government Accounts							
Treasury bills	2	-9	13	-8	-3	-7	3
Other market issues . .	490	4	65	1	-5	65	23
Total	492	-5	78	-7	-8	58	26
General Public⁽¹⁾							
Treasury bills	289	52	-34	-7	-7	4	-211
Other market issues . .	5,754	119	-68	-159	-68	-176	-102
Total market issues . .	6,043	171	-102	-166	-75	-172	-313
of which —							
non-residents ⁽²⁾ . . .	531	-9	-34	-18	8	-53	-63
life insurance cos. ⁽²⁾⁽³⁾	537	-15	-15	-7	-27	-64	-184
all other holders ⁽¹⁾⁽²⁾	4,975	195	-53	-141	-56	-55	-66
Canada Savings Bonds .	2,649	-105	-121	-102	436	108	108
Total	8,692	66	-223	-268	361	-64	-205
Total Outstanding							
Treasury bills	1,625	50	—	30	-30	50	350
Treasury notes	—	—	—	—	—	—	-500
Other market issues . .	10,891	-7	-150	-68	-2	-227	-724
Canada Savings Bonds .	2,649	-105	-121	-102	436	108	108
Total	15,165	-62	-271	-140	404	-69	-766

(1) Residual. Includes investment dealers.

(2) Preliminary estimates.

(3) Holdings in respect of Canadian operations.

New Issues of Provincial, Municipal and Corporate Securities⁽¹⁾

(millions of dollars)

	Gross New Issues			Retirements			Net New Issues		
	Cdn. \$ only	Other Currencies	Total	Cdn. \$ only	Other Currencies	Total	Cdn. \$ only	Other Currencies	Total
Provincial Bonds ⁽²⁾	1955	372	-	372	111	50	261	-50	211
	1956	420	214	634	72	23	348	191	539
	1957	587	133	720	123	87	464	46	510
Municipal Bonds ⁽²⁾	1955	291	42	333	98	25	193	17	210
	1956	235	108	343	112	24	123	84	207
	1957	262	121	383	122	26	140	95	235
Corporate & Other Bonds ⁽²⁾	1955	733	9	742	361	46	372	-37	335
	1956	834	229	1,063	225	20	609	209	818
	1957	767	396	1,163	183	17	584	379	963
Total Bonds	1955	1,396	51	1,447	570	121	826	-70	756
	1956	1,489	551	2,040	409	67	1,080	484	1,564
	1957	1,616	650	2,266	428	130	1,188	520	1,708
Corporate Stocks ⁽¹⁾	1955	493	44	537	72	3	421	41	462
	1956	698	3	701	13	-	685	3	688
	1957	535	-	535	2	33	533	-33	500
Total Bonds and Stocks	1955	1,889	95	1,984	642	124	1,247	-29	1,218
	1956	2,187	554	2,741	422	67	1,765	487	2,252
	1957	2,151	650	2,801	430	163	1,721	487	2,208

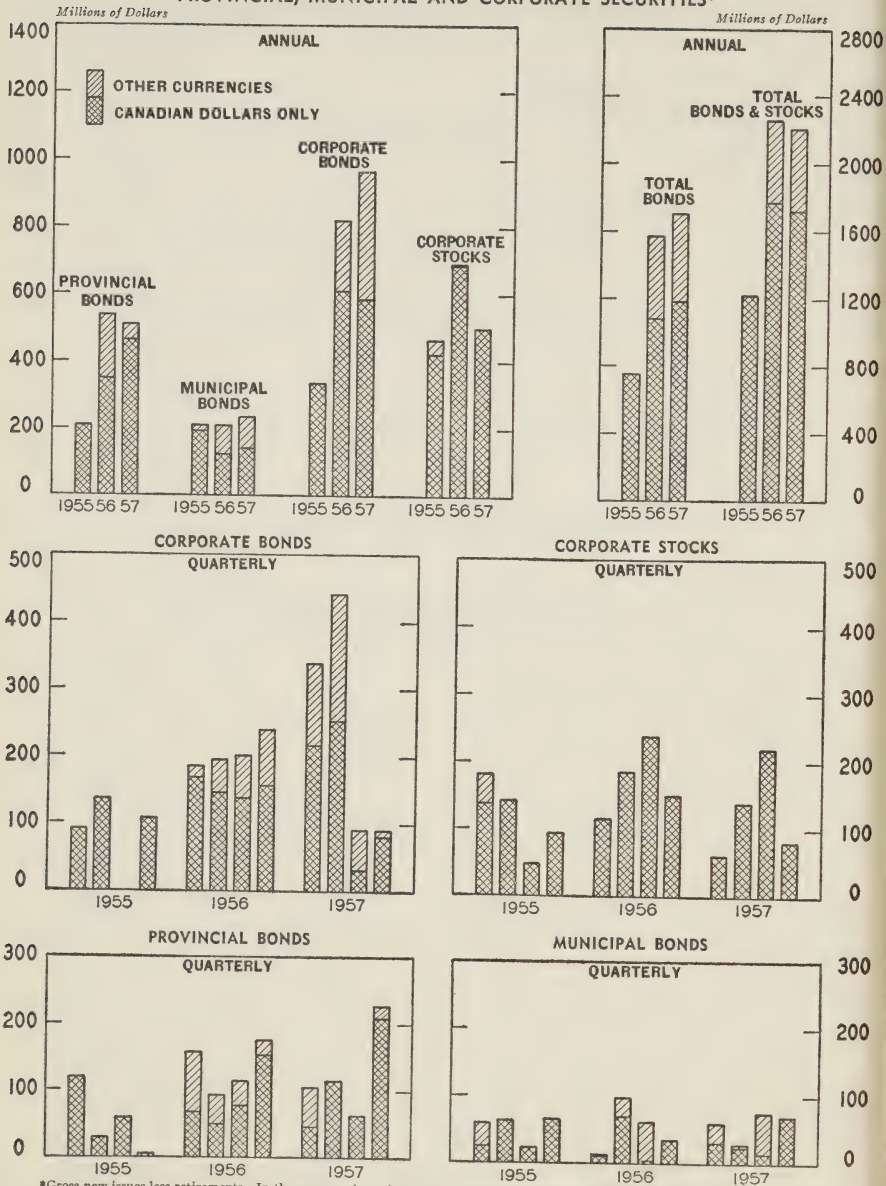
(1) 1957 figures are preliminary. New issues are based on delivery dates rather than dates of offering. Excludes issues with original term to maturity of one year or less.

(2) Includes guaranteed bonds.

(3) "Other" bonds, all Canadian dollar issues, include those of religious and other institutions, Australia and the International Bank for Reconstruction and Development, and amounted to \$52 million in 1955, \$13 million in 1956 and \$10 million in 1957 on a gross basis, and \$22 million in 1955, \$4 million in 1956 and \$3 million in 1957 on a net basis.

(4) Canadian stock issues with dividends payable in U.S. dollars are shown under "Other Currencies".

NET NEW ISSUES OF PROVINCIAL, MUNICIPAL AND CORPORATE SECURITIES*



*Gross new issues less retirements. In those cases where there are net retirements (chiefly of issues payable in other currencies) rather than net new issues the figures are not plotted but are shown in the table on page 37.
See also footnotes to table on page 37.

as compared with \$1,564 million in 1956. Increased amounts were obtained from both the Canadian and New York markets. Municipalities raised more new money than in 1956; the provinces had a larger gross amount of new issues but retirements were also higher so that the amount of new money obtained was somewhat lower than in the previous year. Corporations raised more new money in 1957 than in 1956 through bond issues, while new stock issues declined from \$688 million to \$500 million. Details are shown in the table on page 37 and the chart on page 38.

An industrial classification of the new money obtained by corporations through the sale of bonds and stocks appears in the table below.

Net New Issues of Corporate Bonds and Stocks Industrial Classification⁽¹⁾

(millions of dollars)

	<u>1955</u>	<u>1956</u>	<u>1957</u>
Uranium mines	68	123	63
Other mining and mine products	227	211	200
Petroleum and products	164	201	176
Wood, paper and products	-39	127	46
Other manufactured products	33	76	44
Pipelines	9	137	266
Telephones	80	145	162
Other utilities	28 ⁽¹⁾	94 ⁽¹⁾	289 ⁽¹⁾
Merchandisers	53	58	30
Instalment finance and small loan companies	26	160	75
Other finance, insurance and real estate	107	148	107
Other	19	22	2
Total	<u>775</u>	<u>1,502</u>	<u>1,460</u>

(1) Does not include issues guaranteed by provincial governments (e.g. issues of provincial hydro commissions which amounted to \$120 million in 1955, \$261 million in 1956 and \$304 million in 1957).

Public Debt Operations. The details of new issues and retirements of Government bonds in 1957 are summarized in the table on page 40.

In the summer of 1957 two issues were retired out of cash resources: the 2½ per cent issue of \$150 million which matured on June 15th and the 4½ per cent Government-guaranteed CNR issue of \$64 million, payable optionally in Canadian or United States currencies, which matured on July 1st.

Two large refunding operations took place during the second half of the year. On September 12th a short-term issue of \$700

New Issues and Retirements of Government of Canada Direct and Guaranteed Bonds, 1957

Date of Issue or Redemption	Type of Security	Amount (millions of dollars)		Currency of Payment	Coupon Rate %	Date of Maturity	Earliest Call Date	Issue or Conversion Price	Yield %
		New Issue	Retirement						
June 15	Govt. Loan . . .		150.0	C	2½	June 15/57	N/C		
July 1	CNR — Govt. Gtd. . .		64.1	C & U.S.	4½	July 1/57	N/C		
Oct. 1	Govt. Loan . . .	400.0		C	3	Oct. 1/58	N/C	98.25	4.81
Oct. 1	Govt. Loan . . .	300.0		C	3	Oct. 1/59	N/C	96.30	4.97
Oct. 1	Govt. Loan . . .		700.0	C	2	Oct. 1/57	N/C		
Dec. 15	Govt. Loan . . .	250.0		C	3	Oct. 1/59	N/C	98.60	3.81
Dec. 15	Govt. Loan . . .		250.0	C	2½	Dec. 15/57	N/C		
Dec. 15	Govt. Loan (conversion).	400.0		C	3	Dec. 15/60	N/C	97.60	3.85
Dec. 15	Govt. Loan (in part) .		224.5*	C	2	May 1/58	N/C	99.70	
Dec. 15	Govt. Loan (in part) .		175.5*	C	3	May 1/58	N/C	100.18	
	Canada Savings Bonds .	1,252.2	1,144.6						
	Other Retirements . .		13.0						
	Total	2,602.2	2,721.7						

*Converted to the 3% Loan maturing Dec. 15/60.

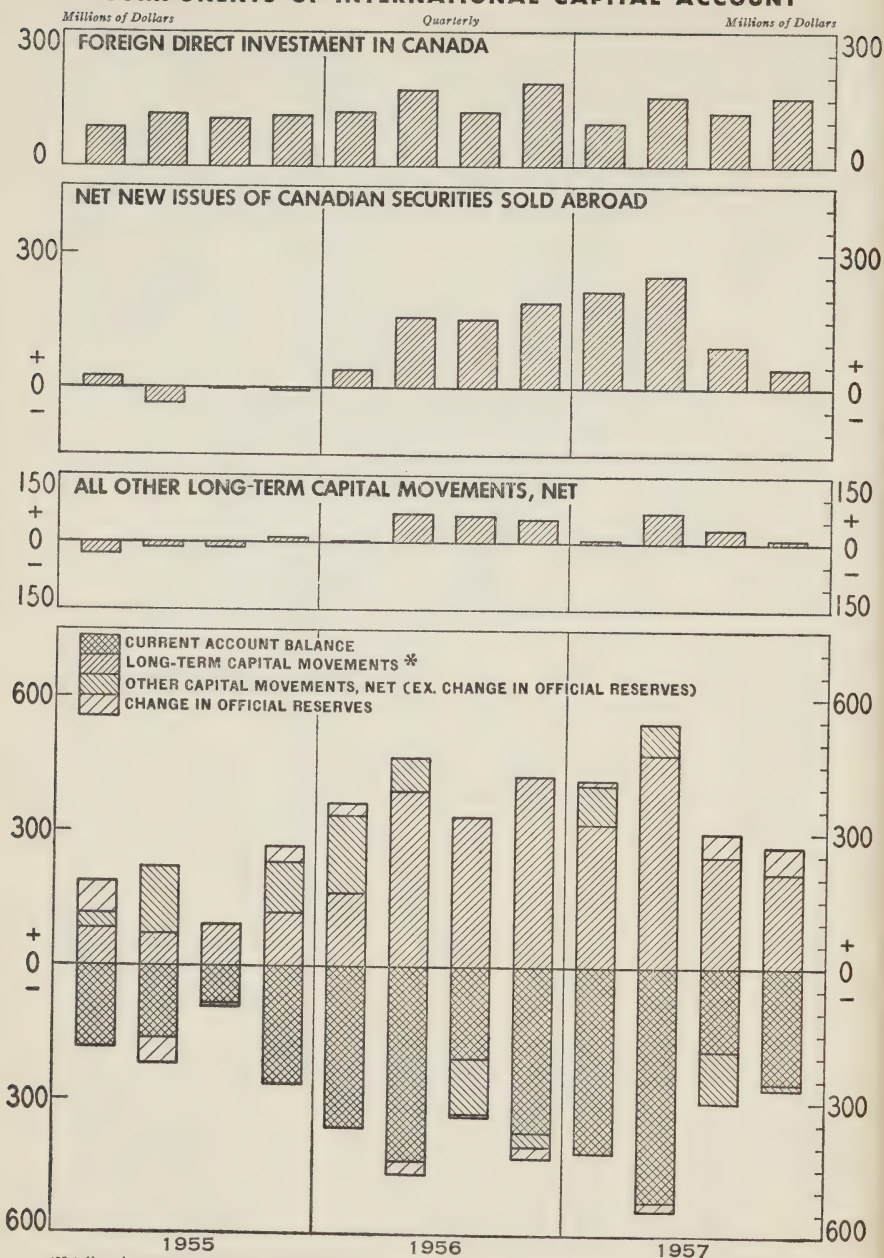
million 3 per cent Government bonds dated October 1st was sold. This issue consisted of \$400 million 1-year bonds due October 1st, 1958 and \$300 million 2-year bonds due October 1st, 1959. The proceeds were used for the redemption of \$700 million 2 per cent bonds maturing on October 1st.

On November 28th a second short-term issue of 3 per cent Government bonds was sold. This issue, dated December 15th, consisted of two maturities, one offered for cash and one for conversion only. The proceeds of the first, sold for cash subscriptions in the amount of \$250 million 1 year 9½ month bonds due October 1st, 1959, were used for redemption of the same amount of 2¼ per cent bonds maturing December 15th. The second part of this issue amounted to \$400 million 3-year bonds due December 15th, 1960 and was sold in partial conversion of the Government 2 per cent and 3 per cent bonds due May 1st, 1958. This conversion operation reduced the amount of bonds due May 1st, 1958 from \$1,000 million to \$600 million.

The Twelfth Series of Canada Savings Bonds went on sale in October. The first two coupons on these bonds were for 3¼ per cent and the remaining eleven coupons for 4¾ per cent, providing an average yield of 4.46 per cent per annum if held to maturity. At December 31st, when the issue was withdrawn, total sales amounted to \$1,216 million as compared with \$818 million of the Eleventh Series at the end of 1956. Payroll sales were \$217 million, \$3 million more than in the previous year. The Second Series of Canada Savings Bonds, dated November 1st, 1947, matured on November 1st, 1957. Total redemptions and maturities of all series during the year amounted to \$1,145 million. The net increase in Canada Savings Bonds outstanding during the year was \$108 million, bringing the total outstanding at the end of 1957 to \$2,649 million or 17½ per cent of the total direct and guaranteed funded debt.

International Capital Account. In 1957 the main features of Canada's international payments account were, as in the previous year, a very large deficit on current account and a substantial inflow of long-term capital. Both the current account deficit and the inflow of long-term capital rose in the first half of the year and both declined in the second. This type of offsetting movement of the current account deficit and the inflow of long-term capital has been a recurrent feature in recent years and reflects their connec-

COMPONENTS OF INTERNATIONAL CAPITAL ACCOUNT



*Net direct investment, net security transactions and repayments of Govt. of Canada loans.

tion with the level of domestic economic activity, particularly in the investment sector. These offsetting movements are illustrated in the chart on the facing page.

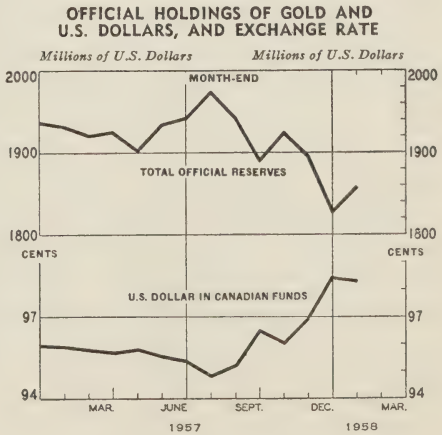
Total exports of goods and services in 1957 remained at about the same level as in 1956. Imports of goods and services were considerably higher in the first half of 1957 than in the same period of 1956 but declined in the second half. The current account deficit therefore followed a similar trend and for the year as a whole totalled \$1,383 million, about the same as in 1956. These developments are shown in charts on pages 4 and 13.

The volume of foreign direct investment in Canada in 1957 continued at a very high level, though somewhat lower than in 1956. As in the previous year a large proportion of the inflow of funds went to the development of the petroleum and gas industry, mining and other primary resources. Direct investment abroad by Canadians dropped from \$110 million in 1956 to \$55 million in 1957.

International trade in outstanding Canadian debtor bonds produced an outflow of capital in 1957 in contrast to the inflow of 1956. Net sales of outstanding Canadian common and preferred stocks to overseas countries, particularly the United Kingdom, were higher than in 1956 but there was a very sharp reduction in net sales to the United States with the result that the total of net sales of corporate stocks to all countries was somewhat lower.

Details of the international capital account appear in the chart on the facing page and the table on page 44.

The value of the United States dollar in Canadian funds declined from \$.95 31/32 at the end of 1956 to \$.94 7/32 in August and then rose, closing the year at \$.98 13/32. Canada's official holdings of gold and U.S. dollars declined from \$1,936.2 million (U.S.) at the end of 1956 to \$1,828.3 million (U.S.) at the end of 1957. Changes through the year are shown in the chart.



Source: Dominion Bureau of Statistics.

Notes in Circulation. The total amount of Bank of Canada notes outstanding increased by \$35 million in 1957 as compared with an increase of \$130 million in 1956. The distribution by denominations is shown in the table below.

Bank of Canada Note Liabilities
(as at December 31st—in thousands of dollars)

Notes issued by the Bank of Canada	<u>1950</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
\$1	50,273	65,491	70,270	72,589
2	37,279	47,373	50,371	51,952
5	111,731	130,931	138,004	139,839
10	429,886	499,587	528,741	528,575
20	346,060	493,655	555,755	582,163
25	47	46	46	46
50	108,735	127,747	134,381	134,803
100	254,457	347,256	364,052	365,479
500	160	63	58	51
1,000	11,489	12,201	13,233	14,661
Total	<u>1,350,117</u>	<u>1,724,350</u>	<u>1,854,912</u>	<u>1,890,159</u>
Dominion of Canada notes*	4,702	4,655	4,651	4,648
Provincial notes*	28	28	28	28
Defunct banks' notes* . .	88	88	88	88
Chartered banks' notes* .	12,487	9,370	9,025	8,799
Total Bank of Canada Note Liabilities	<u>1,367,422</u>	<u>1,738,491</u>	<u>1,868,704</u>	<u>1,903,721</u>
Held by:				
Chartered banks	231,306	289,446	370,938	348,606
Others	<u>1,136,116</u>	<u>1,449,045</u>	<u>1,497,766</u>	<u>1,555,115</u>

*These are note issues which are in the process of being retired and the liability for them has been taken over by the Bank of Canada from the original issuers.

Profit and Loss. In 1957 the net earnings of the Bank amounted to \$68,711,435 as compared with \$47,272,179 in 1956. The increase was mainly due to a higher average yield on the Bank's holdings of securities. The whole of the net earnings was paid to the Receiver General of Canada for credit of the Consolidated Revenue Fund.

Statement of Assets and Liabilities. The changes in technical procedures referred to on page 29, particularly those relating to the settlement of Government revenue and expenditure items, are reflected in much larger figures under the headings "Cheques on other banks" and "Bank of Canada cheques outstanding" and in the new heading "Net balance of Government of Canada collections and payments in process of settlement" in the statement of assets and liabilities which follows.

BANK OF CANADA • STATEMENT

ASSETS

	<u>1957</u>	<u>1956</u>
Foreign exchange		
Pounds sterling and U.S.A. dollars — at market value	\$ 63,505,125	\$ 60,846,725
Other currencies — at market value	122,332	147,644
	<hr/> \$ 63,627,457	<hr/> \$ 60,994,369
Cheques on other banks	\$ 65,246,237	\$ 7,091,024
Accrued interest on investments	\$ 15,336,391	\$ 14,626,084
Investments — at amortized values		
Treasury bills of Canada	\$ 467,061,608	\$ 505,227,889
Other securities issued or guaranteed by Canada maturing within two years	779,151,604	519,737,931
Other securities issued or guaranteed by Canada not maturing within two years	1,181,259,744	1,368,977,442
Debentures issued by Industrial Development Bank	36,197,240	22,979,700
Other securities	16,681,418	16,709,345
	<hr/> \$ 2,480,351,614	<hr/> \$ 2,433,632,307
Industrial Development Bank		
Total share capital at cost	\$ 25,000,000	\$ 25,000,000
Bank premises		
Land, buildings and equipment — at cost less amounts written off	\$ 8,597,725	\$ 5,770,669
Other assets	\$ 548,252	\$ 581,047
	<hr/> <hr/> \$ 2,658,707,676	<hr/> <hr/> \$ 2,547,695,500

J. E. COYNE, *Governor*
Ottawa, January 23, 1958.

E. FRICKER, *Chief Accountant*

ASSETS AND LIABILITIES

AT DECEMBER 31, 1957

(Comparative figures at December 31, 1956)

LIABILITIES

	1957	1956
Capital paid up . . .	\$ 5,000,000	\$ 5,000,000
Rest fund . . .	\$ 25,000,000	\$ 25,000,000
Notes in circulation .	\$ 1,903,721,143	\$ 1,868,703,781
Deposits		
Government of Canada . . .	\$ 35,363,078	\$ 38,770,957
Chartered banks . . .	517,571,524	511,496,366
Other . . .	31,232,958	31,191,395
	\$ 584,167,560	\$ 581,458,718
Liabilities payable in pounds sterling, U.S.A. dollars and other foreign currencies		
To Government of Canada . . .	\$ 59,988,766	\$ 53,386,335
To others . . .	10,043,676	8,788,261
	\$ 70,032,442	\$ 62,174,596
Bank of Canada cheques outstanding . . .	\$ 53,170,067	\$ 3,144,394
Net balance of Government of Canada collections and payments in process of settlement . . .	\$ 15,132,271	
Other liabilities . . .	\$ 2,484,193	\$ 2,214,011
	\$ 2,658,707,676	\$ 2,547,695,500

Auditors' Report • We have made an examination of the statement of assets and liabilities of the Bank of Canada as at December 31, 1957 and have received all the information and explanations we have required. We report that, in our opinion, it correctly sets forth the position of the Bank at December 31, 1957 according to the best of our information and as shown by the books of the Bank.

G. A. ADAMSON, F.C.A.,
of Clarkson, Gordon & Co.

MAURICE SAMSON, O.B.E., C.A.,
of Chartre, Samson, Beauvais, Belair & Cie.

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 1957

(with comparative figures for the year ended December 31, 1956)

	<u>1957</u>	<u>1956</u>
Profit for the year	\$68,711,435	\$47,272,179
Transfer of inner investment reserve	<u> </u>	<u>\$42,592,924</u>
Paid to the Receiver General of Canada for credit of the consolidated revenue fund	<u>\$68,711,435</u>	<u>\$89,865,103</u>

BOARD OF DIRECTORS



J. E. COYNE, *Governor*

J. R. BEATTIE, *Deputy Governor*

A. C. PICARD, *Quebec, Que.*
Member of the Executive Committee

J. M. BUCHANAN, *Vancouver, B.C.*

E. G. BURTON, C.B.E., *Toronto, Ont.*

J. L. CAVANAGH, *New Glasgow, N.S.*

N. A. HESLER, *Sackville, N.B.*

W. A. JOHNSTON, Q.C., *Winnipeg, Man.*

R. H. MILLIKEN, Q.C., *Regina, Sask.*

H. O. PATRIQUIN, *Edmonton, Alta.*

H. A. RUSSELL, *St. John's, Nfld.*

A. SAMOISSETTE, O.B.E., *Montreal, Que.*

A. A. SCALES, *Charlottetown, P.E.I.*

EX-OFFICIO

K. W. TAYLOR, C.B.E., *Deputy Minister of Finance, Ottawa*

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•

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J. R. BEATTIE, *Deputy Governor*

L. P. SAINT-AMOUR, *Deputy Governor*

L. RASMINSKY, C.B.E., *Deputy Governor*

R. B. MCKIBBIN, *Deputy Governor*

W. E. SCOTT, *Executive Assistant to the Governors*

L. F. MUNDY, *Secretary*

E. FRICKER, *Chief Accountant*

E. METCALFE, *Auditor*

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C. H. RICHARDSON, *Deputy Secretary*

A. J. BAWDEN, *Assistant Secretary*

J. C. NESBITT, *Personnel Officer*

MISS M. K. ROWLAND, *Personnel Officer*

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J. U. RANGER, *Deputy Chief*

Public Debt Division: F. M. PETERS, *Chief*

H. W. THOMPSON, *Deputy Chief*

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G. K. BOUEY, *Deputy Chief*

B. J. DRABBLE, *Assistant Chief*

G. E. FREEMAN, *Assistant Chief*

G. S. WATTS, *Special Assistant*

S. V. SUGGETT, *Industrial Research Assistant*

MISS H. COSTELLO, *Librarian*

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A. CLARK, *Assistant Chief*

D. J. R. HUMPHREYS, *Assistant Chief*

H. G. GAMMELL, *Toronto Representative*

T. G. BOLAND, *Montreal Representative*

FOREIGN EXCHANGE DEPARTMENT

W. A. CAMERON, *Chief*

P. WATT, *Montreal Representative*

J. C. FRASER, *Toronto Representative*

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•

Calgary, Alta. . . . F. J. WILKS, *Agent*

Halifax, N.S. . . . G. R. BONNER, *Agent*

Montreal, Que. . . . J. H. C. DESMARAIS, *Agent*
A. HUBERDEAU, *Assistant Agent*

Ottawa, Ont. . . . J. K. FERGUSON, *Agent*

Regina, Sask. . . . W. D. T. SHORTREED, *Agent*

Saint John, N.B. . . . E. L. JOHNSON, *Agent*

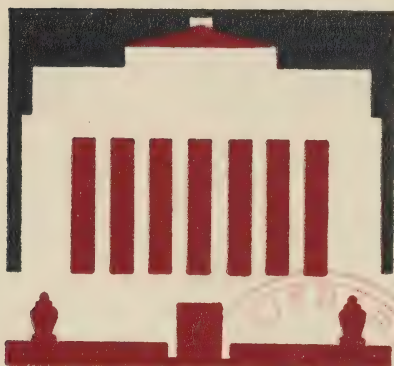
Toronto, Ont. . . . R. J. LILLIE, *Agent*
F. H. RUHL, *Assistant Agent*

Vancouver, B.C. . . . W. D. FARRELL, *Agent*

Winnipeg, Man. . . . G. A. IVEY, *Agent*

UNIVERSITY OF TORONTO
BUSINESS ADMINISTRATION
READING ROOM

3



BANK OF CANADA

**ANNUAL REPORT OF
THE GOVERNOR TO THE
MINISTER OF FINANCE**

AND STATEMENT OF ACCOUNTS

FOR THE YEAR 1958



CANADA

“WHEREAS it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion: Therefore, . . .”

—Preamble to the Bank of Canada Act

BANK OF CANADA

February 28, 1959.

The Hon. Donald M. Fleming, Q.C.,
Minister of Finance,
Ottawa.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act I am transmitting herewith my report for the year 1958, and a statement of the Bank's accounts for this period which is signed and certified in the prescribed manner.

Yours very truly,

J. E. COYNE,

Governor.

BANK OF CANADA
REPORT OF THE GOVERNOR
1958

Monetary and financial conditions underwent marked changes during the year 1958, more or less simultaneously with the change in the trend of economic developments. The recession in the North American economy which began in the third quarter of 1957 appears to have reached its low point shortly after the end of the first quarter of 1958, and the beginning of the recovery is generally dated from April. Shortly after the last reduction in the discount rate of the Federal Reserve Banks in the United States interest rates began to rise and bond prices to fall, the peak of the Government bond market having apparently been reached about April 18th. In Canada the trend towards falling bond prices and rising interest rates could not be said to have been established until the last week of May, the delay being presumably due to the substantial degree of monetary expansion that occurred in April and May in connection with the large Government bond offering dated May 1st.

Both in Canada and in the United States the rise in interest rates was aggravated and accelerated by the development of what has been called an inflation psychosis, arising out of investors' fears that large scale Government deficits and continued upward pressures on costs and prices even during a period of recession were significant omens of potential future inflation on a larger scale. For special reasons which are discussed in detail later, the increase in the money supply was much greater in Canada than in the United States, but in both countries this development was also taken in investment circles as holding an inflationary threat.

I believe that these fears of inflation will prove to have been exaggerated, particularly if appropriate steps may be expected to be taken to overcome Government deficits, but undoubtedly the continuing rise in stock market prices and the continuing decline in bond market prices were influenced by such psychological factors and show how powerful an influence can be exercised by expectations. As will be seen, the successful conclusion of the Canada Conversion Loan of 1958 made possible a return thereafter

to non-bank financing of Government bond issues and a halting after early October of the monetary expansion which had been necessary up to that time. The degree of monetary expansion experienced prior to this date was substantially greater than would have been necessary or desirable for monetary and economic reasons alone, but was, I believe, justified and unavoidable in order that a strenuous and successful effort might be made to deal with serious problems affecting the financing of the Government's cash deficit and the condition of the public debt.

General Review

In both Canada and the United States the downward trend in business activity ended by spring, and by the fourth quarter of 1958 Gross National Product was above the previous peak by 4 per cent in Canada and by 2 per cent in the United States. After allowing for price increases the volume of output in that quarter in Canada was a little above the previous peak and in the United States was only slightly below the previous peak, and the trend of output in both countries at the end of 1958 was firmly upward. Movements in the Gross National Product in Canada and the United States, measured at current and at constant prices, are shown in chart form on page 17.

Monetary conditions in Canada had eased considerably in the latter part of 1957. The money supply had expanded, the demand for credit on the part of both business and consumers had abated, and interest rates had declined rapidly. The chartered banks had experienced an easing of their cash position and, in the absence of sufficient demand for loan accommodation from credit-worthy borrowers, they had added to their holdings of short-term Government securities.

During 1958 monetary conditions were dominated by large changes in both the demand for and the supply of loanable funds. On the demand side there emerged large borrowing requirements by the Government of Canada which far exceeded the small decline that occurred in the demand for funds by other borrowers. On the supply side there was a very substantial further expansion in currency and bank deposits. Notwithstanding the large increase in the money supply, bond yields rose appreciably over the year.

The easing of monetary conditions in Canada in the latter part of 1957 had been helpful in ensuring that the recession would not be aggravated or recovery impeded by a shortage of money or credit. Little further expansion would probably have been considered appropriate in 1958 unless economic conditions had continued to deteriorate. As already mentioned, however, a substantial further expansion did take place, with the result that by early October a sufficient degree of expansion of the money supply had taken place to make possible the financing not only of full recovery from the recession but of a considerable degree of renewed economic growth thereafter. Very large increases in both savings deposits and current deposits had occurred, the additional funds being held temporarily (one must suppose) uninvested by their owners. On the asset side of the banking picture, the chartered banks had for lack of any major increase in the demand for loans for the time being invested the very large increase in their total resources in short-term Government bonds.

There were two periods of large-scale monetary expansion. The first took place at the time of the May 1st new issue of Government securities, when it appeared that a net increase in non-bank holdings could not be achieved. Details of this are given in a later part of this Report. The second and larger of these major increases in money supply took place in connection with the Conversion Loan, when the Bank of Canada stood prepared to make markets in all maturities of Government of Canada securities and, as events developed, became a substantial buyer of bonds on balance, such purchases being only partly offset by sales of treasury bills. It must be remembered that important and valuable benefits were achieved by the success of the Conversion Loan campaign through the lengthening of the term of the debt. The reform of the structure of the Government debt, and the contribution it made to improving conditions for the sale of future issues of Government bonds to non-bank investors, were important elements in monetary policy in the broadest sense and an essential anti-inflationary achievement.

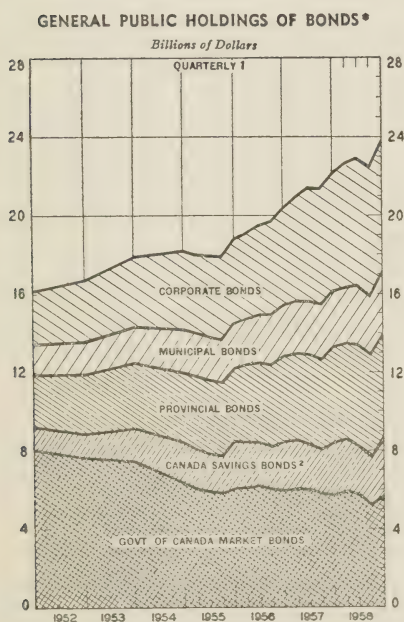
Ideally, it would have been desirable to have financed virtually all the increase in Government debt during the year by sales of appropriate securities to non-bank investors and thus held to a

minimum the degree of monetary expansion to be added to that which had already occurred in the latter part of 1957. In the circumstances, as already indicated, this was a most difficult goal to achieve. This became most apparent at the time of the May financing in Canada, when no increase in non-bank holdings was achieved, and of the June financing in the United States, when an early speculative demand proved short-lived and was succeeded by sharply falling prices and special intervention in the market by the Federal Reserve System.

The problem was complicated by the development in 1958 of adverse expectations regarding bond prices. In both the United States and Canada the apparent paradox of continuing consumer price increases during recession, the size of government deficits and the degree of monetary expansion all contributed to concern about the dangers of inflationary trends in the future, and gave rise to expectations of lower bond prices and higher interest rates.

As the weight of government borrowing programmes became

fully apparent to the market, bond yields rose. Yields increased most in the markets for federal government bonds where the largest changes in the relative supply-demand situation took place. While the change in investors' attitudes affected the terms on which they were willing to buy various types of securities, there was no general movement out of bonds into other kinds of investments. As illustrated in the inset chart, the rise in the general public's holdings of all Canadian bonds during 1958 was nearly as great as in 1957 and greater than in any other year since the war.



In Canada, taking the year 1958 as a whole, the general public added to its holdings of Government of Canada securities on a relatively modest scale. Over the year the total of Government direct and guaranteed securities outstanding increased in round figures by \$1,250 million, and the holdings of Government accounts declined by \$110 million so that a total of \$1,360 million of Government securities had to be placed. Of these, non-bank investors took \$270 million, and the remainder—\$1,090 million—was bought by the banking system, the Bank of Canada's holdings increasing by \$210 million and chartered banks' holdings by \$880 million. However, these figures obscure important changes within the year. From early spring until early autumn, the general public sold Government securities on balance, but by the final months of the year conditions had changed and the general public was buying Government securities on a substantial scale. In the fourth quarter they increased their holdings of marketable issues by \$510 million and provided the unusually large amount of over \$500 million in new cash in the annual Canada Savings Bond campaign. (See table and charts on pages 54 and 55.) The total volume of currency and bank deposits, which between July 1957 and October 1958 had risen by \$1½ billion or by 15 per cent, has shown little or no increase on balance since early October. (See table on page 43 and charts on pages 44 and 45.)

The upswing in economic activity in the United States and Canada may be expected, as on past occasions, to be accompanied by a substantial increase in private demands for borrowed funds. At some stage the competition for such funds may become acute, although the development of this kind of problem for borrowers would be reduced or delayed if the present concern of investors about the possibility of inflation were allayed, for they would then be more ready to invest money which they are at present holding uninvested in unusually large quantities. Even so, if recovery and growth proceed very strongly the demand for money to finance apparently desirable projects—both the desirability and the number of which multiply rapidly under such circumstances—may once again increase more rapidly than the supply of savings and of loan-

able funds. Under such conditions also the demand for capital and credit for speculative or non-productive purposes would increase and become a strong competitor for money.

The experience of 1955-1957 is, I hope, fresh in our minds. In the conditions which were then experienced, and which may recur, many people feel that they do not have a fair opportunity to obtain access to capital and credit for what they regard as necessary and proper purposes. The impression arises that some borrowers, particularly in the larger category, are able to do better than others and that there is undesirable discrimination and misdirection in the allocation of resources or in the ability to command resources. As I have emphasized many times in the past, monetary policy does not create these problems and can do little itself to alleviate them. The first job of monetary policy in such circumstances is to avoid adding by its own operations to the much greater problem of inflation. Secondly, if possible, it must reduce and restrain the forces making for inflation.

There are some who hold the view that central banks should not in any way concern themselves with matters of credit allocation. In this view, in the period 1956-1957 the Bank of Canada went too far in the direction of endeavouring (not very successfully as it turned out) to encourage some degree of selective credit allocation, even though voluntary and informal. Some have said that central banks should leave questions of credit distribution to be dealt with, or fail to be dealt with, in the market or by governments. In future periods of inflationary pressure it may be that financial markets will operate more effectively, or to the extent that market decisions are regarded as unacceptable governments may play a more active role in influencing the allocation of credit and resources.

In any event it is vital to a successful policy of monetary stability that it should be widely understood that the Bank of Canada itself has no power to direct the chartered banks, to say nothing of other lenders or investors, in the making of their loans and investments, or to impose restrictions on some kinds of loans or investments in order that other kinds might be more freely made. Many ways

have been suggested by which, for example, access to funds could be equalized as between individuals or small businesses and large enterprises; by which some priority could be given to productive enterprises over speculative, and to the provision of capital for growth and expansion over too rapid expansion of credit for consumption; by which provinces and municipalities could be given a better position in the market for borrowed funds; by which the maintenance of an adequate flow of private funds into housing could be achieved without burdening governments with heavy expenditures in that field; by which certain sections of the country could be given special assistance to develop and industry encouraged to decentralize. Regardless of the desirability or feasibility of these measures, they are outside the powers of the Bank of Canada. The central bank must continue to emphasize its major and essential role of regulating the rate of change in overall monetary supply in such manner as is consistent with and, so far as monetary action can, will contribute to, sound and sustained economic growth under stable prices.

Looking back over the course of developments in western countries during the past ten years or so, I cannot escape the conclusion that we could have achieved as great an increase in output and employment, and at the same time avoided many of the difficulties and hardships caused by inflation or fear of inflation, if governments and central banks had given higher priority to maintaining the value of money. There were, of course, special circumstances which from time to time seemed to justify and indeed make necessary the course of action that was followed, but in retrospect the degree of resistance to the pressure of circumstances does not appear to have been as strong as one could wish.

I believe that monetary policy must strengthen and re-affirm its determination to remain true to the basic principles of sound money. Perhaps the greatest obstacle to the proper use of monetary policy is the spread of the theory that democracies cannot have both high employment and stable prices, that they must inevitably choose between unemployment and inflation, that high employment can

only be achieved by the acceptance or even the deliberate creation of some degree of inflation. I am certain that these views are fundamentally wrong. The idea that readiness to create or tolerate inflation can make a useful contribution to the problem of maintaining a high and expanding level of employment and output, is in danger of becoming the great economic fallacy of the day. In the end, inflation creates more unemployment than it temporarily cures; it badly hurts many who have no way of protecting themselves against it; it discourages economic efficiency and lowers productivity; it is the great destroyer of economic order and social stability. I do not suggest that the goals of sustained growth, high employment and stable prices can be achieved by wise and determined monetary action alone, but they can be seriously jeopardized by unwise or uncertain monetary action. Democratic society can surely work out ways and means of fostering sound economic growth, and of dealing satisfactorily with unemployment if it arises on a significant scale from time to time, without resorting to debasement of the currency.

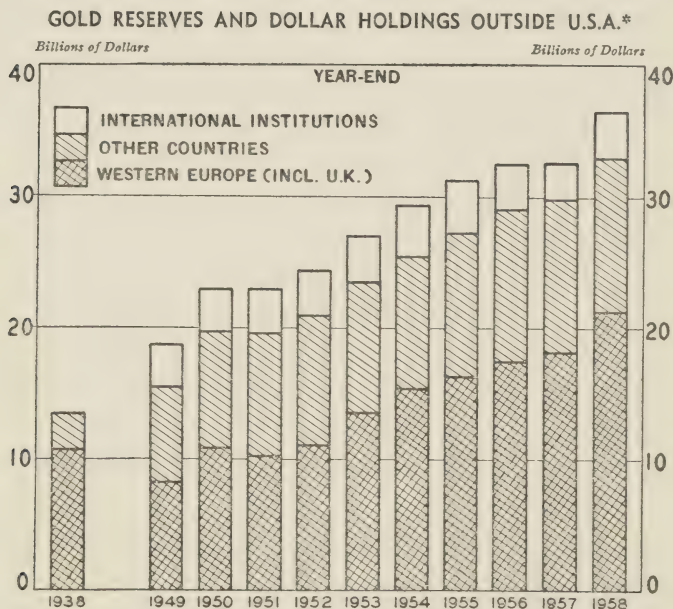
In a country like Canada, which is greatly influenced by conditions in foreign markets, it is of course impossible to insulate our economy entirely from the contagion of inflationary influences originating abroad. We can, however, by our own actions restrain inflationary factors of domestic origin and prevent them from getting out of control. If we fail in this, our costs of production will rise above those of other countries with which we trade or with which we compete in foreign markets, with serious consequences for everyone in Canada. We in Canada can also exert our efforts in the international field towards achieving conditions of durable economic growth and monetary stability throughout the world. It is encouraging that the year 1958 saw important steps towards more effective international co-operation in these matters.

International Financial Developments

Significant developments in international finance took place towards the end of 1958 when the United Kingdom and other countries of Western Europe made their currencies convertible

in the hands of non-residents. For the countries concerned, this step marks an advanced stage in the long transition from wartime exchange controls, involving inconvertibility and discrimination, to the normal exchange arrangements contemplated in the Agreement setting up the International Monetary Fund which provide that a country should be able to convert the proceeds of its exports to any part of the world to pay for its imports from any part of the world.

The concerted move to convertibility is a welcome reflection of the extent to which the wartime distortions in international financial relationships have been overcome and of the considerable progress that has been made towards a balanced international financial position. One illustration of this is the great change that has taken place in the international distribution of gold holdings and in the increase in foreign countries' dollar reserves. United States



gold reserves have fallen in 5 of the past 10 years and at the end of 1958, at \$20.6 billion, were nearly \$4 billion lower than at the

end of 1948. During this decade the rest of the world (excluding the Sino-Soviet group) added approximately \$8.5 billion to its gold reserves, bringing them to \$19 billion, and added \$10 billion to its U.S. dollar holdings, bringing them to \$17.5 billion.

Progress towards a better financial balance vis-a-vis the United States was particularly marked in 1958. In that year the gold reserves of the United States fell by \$2.3 billion. In addition to the gold that accrued to the rest of the world through this outflow from the United States, other countries also increased their gold reserves as a result of Russian gold sales and new gold production. The net addition in 1958 to gold reserves of countries other than the United States and the Sino-Soviet group was in the neighbourhood of \$3 billion, and these countries also added approximately \$1 billion to their United States dollar balances during the year.

The sharp increase in the gold and dollar holdings of countries other than the United States during 1958 was the more remarkable in that it took place in a year in which the U.S. economy was operating well below capacity, and when, therefore, United States imports of goods and services might have been expected to decline markedly. In fact, imports into the United States were well maintained, particularly imports of manufactured goods, while exports fell considerably from the abnormally high levels to which they had risen at the time of the Suez crisis. The United States continued to run a surplus in its total trade in goods and services—as indeed it must if it is to contribute physical resources to the economic development of the rest of the world—but the surplus fell short of the capital made available by the United States to other countries by way of economic aid and other public and private exports of capital.

Most of the reserve increases of 1958 accrued to the United Kingdom and Western Europe. Within this area the increases were fairly widely distributed. Official U.K. reserves rose from \$2.3 billion to \$3.1 billion in the course of 1958, and increases were also recorded by most other Western European countries, the amounts being particularly large for Italy, the Netherlands, Belgium

and Germany. Despite a further increase in the German current account surplus in 1958, the impact of the German position on other countries was eased as a result of a cessation of speculative short-term capital movements into Germany and increases in German exports of capital. Thus, while the German current account surplus rose from \$1.8 billion in 1957 to \$2.1 billion in 1958, her gold and dollar holdings increased by only \$400 million in 1958 compared with nearly twice this amount in 1957.

The ability of European countries to add to their gold and dollar holdings since the latter part of 1957 must be attributed in part to the internal measures of monetary and fiscal policy taken to deal with inflationary tendencies. These not only helped improve the current balance of payments, but also in some cases, such as sterling, restored confidence in the currency where it had previously been disturbed, and led to a reversal of earlier short-term capital outflows. Another factor of importance in the European position was the improvement in the terms of trade caused by the fall in prices of many imported primary products associated with the levelling off and decline in industrial output in Europe and North America. The other, and unfavourable, side of this development was the worsening in the payments position of many countries producing primary commodities, and therefore in their ability to buy from European and other sources of supply. Fortunately, continued outflows of capital and economic aid from the important industrial countries to the less developed parts of the world and the substantial loans made by the International Bank and drawings on the International Monetary Fund cushioned the loss of export income of many primary producers and helped prevent any cumulative contraction of world trade from developing.

The growth of European reserves over the past decade reflects very real and substantial growth in the economic strength of Western Europe. Recovery from the great destruction and dislocations of the war was, with large-scale financial assistance from the United States and Canada, unexpectedly rapid and complete. By 1949 production had been restored to pre-war levels and since then,

with occasional pauses such as occurred in 1952 and 1958, output and productivity have increased with exceptional rapidity. Important programmes of modernization and re-equipment of industry have been carried forward and have resulted in large additions to the stock of productive capital and in noteworthy improvements in efficiency. Within a comparatively brief span of years European economies have been restored from a state of disorganization to working order. They have shown enterprise in making good use of the skilled labour and other assets available and they have become very formidable competitors in world markets.

Confidence in the underlying economic strength of Western Europe and the material evidence of improving reserves were important factors encouraging and making possible the move to convertibility in 1958. No doubt another important factor was the action initiated in the latter half of 1958 looking to a substantial increase in the resources of the International Monetary Fund. When these proposals receive the necessary confirmation by legislatures, the Fund's gold and dollar resources (including Canadian dollars) will be increased by \$2.5 billion and its resources of Western European convertible currencies by nearly \$1.4 billion. These amounts will constitute an important supplement to national gold and exchange reserves in giving members of the Fund confidence that they will—granted appropriate domestic policies—be able to overcome temporary balance of payments difficulties without resorting to exchange or import restrictions.

In a broad sense the decision to introduce convertibility is a further step in the process whereby the countries concerned have been moving away from excessive reliance on arbitrary direct controls over various phases of economic life and have been giving more scope to the operation of market forces. With the post-war dislocations overcome, it has been increasingly recognized that in the final analysis the external value of any currency depends on the way the country concerned manages its domestic affairs, rather than on exchange controls and import restrictions, and that there is a direct link between domestic economic, fiscal and monetary policies and the balance of international payments.

The action taken by Western European countries to make their currencies convertible in the hands of non-residents does not automatically open additional market opportunities for Canadian exports. The limiting factors on Canadian exports have been the quantitative import restrictions maintained by the countries concerned (rather than the inconvertibility of their currencies) and the degree of competitiveness of Canadian prices. Nevertheless the action is of great significance. It is now clearly of no financial concern to Western European countries whether they buy from dollar or non-dollar sources since payments for their imports from all sources alike can be converted into other currencies, including dollars. There is in these circumstances no justification for discriminatory import restrictions, and it is reasonable to expect that convertibility in Europe should be followed by a rapid dismantling of existing controls against dollar goods. It is to be hoped that arrangements for regional economic co-operation in Europe will not interfere with this development. Some countries which had lagged behind in the removal of these controls have indeed already drawn the logical conclusions of convertibility and taken steps to remove special controls against imports from the dollar area. For example, France announced a substantial liberalization of her imports from the dollar area, as part of a comprehensive programme of financial reform which came into effect, along with the devaluation of the franc, at the time of the convertibility operation.

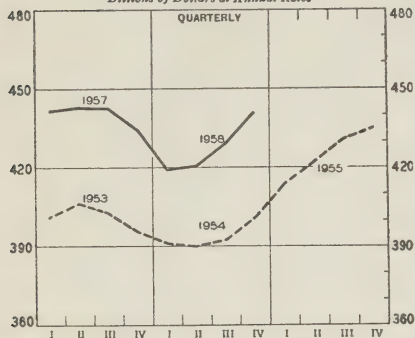
With the disappearance of whatever justification there may have been in the past for discriminatory trade restrictions and the reduced justification for quantitative trade restrictions of any type, it is reasonable to look now for a renewed expansion of international trade. Such an expansion could be of great benefit to Canada, if Canadian producers are able and willing to supply at competitive prices goods which are in demand in foreign markets.

RECESSION AND RECOVERY IN THE UNITED STATES

Comparison of Years 1957-59 with 1953-55
Seasonally Adjusted

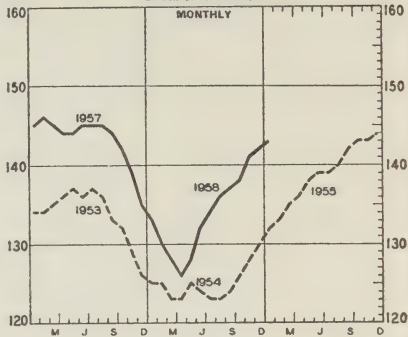
GROSS NATIONAL PRODUCT IN CONSTANT (1957) PRICES

Billions of Dollars at Annual Rates



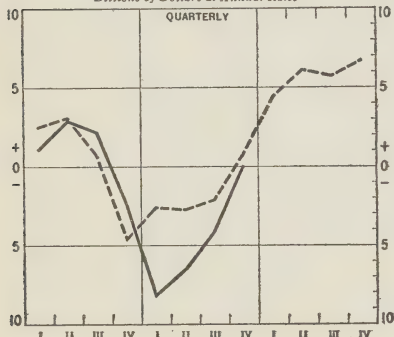
INDUSTRIAL PRODUCTION

Index 1947-49=100



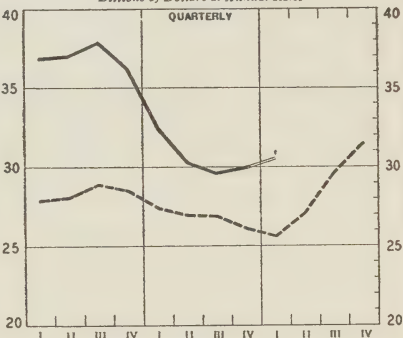
CHANGE IN TOTAL INVENTORIES

Billions of Dollars at Annual Rates



EXPENDITURES FOR NEW PLANT AND EQUIPMENT*

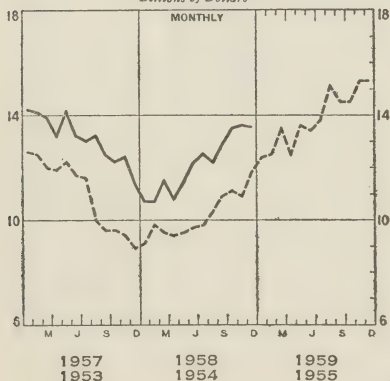
Billions of Dollars at Annual Rates



* Securities and Exchange Commission.
1. Anticipated.

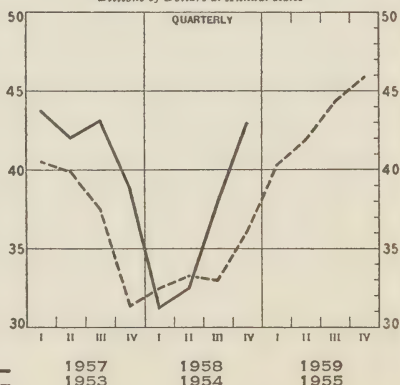
NEW ORDERS RECEIVED BY MANUFACTURERS OF DURABLE GOODS

Billions of Dollars



CORPORATION PROFITS

Billions of Dollars at Annual Rates

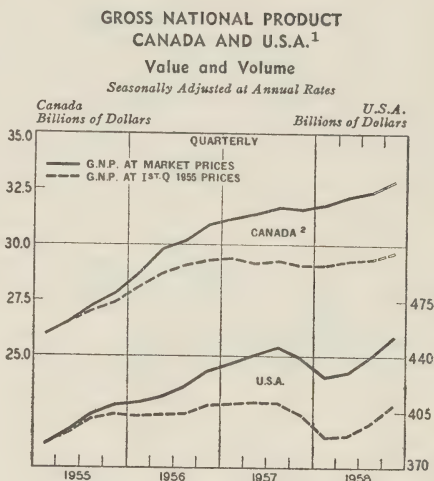


Economic Conditions

During 1958 a pronounced improvement took place in the North American economic climate as the recession which began in the United States and Canada in 1957 proved to be neither so severe nor so prolonged as many had feared. From the third quarter of 1957 to the first quarter of 1958 total production of goods and services in the United States fell by more than 5 per cent in physical volume, and from August 1957 to April 1958 industrial production fell by 13 per cent. A vigorous economic recovery began in that country in the spring, and by the final months of 1958 output had nearly regained the peak level reached before the recession, and was rising strongly. In Canada the recession was more moderate by most standards and some

important indicators of economic activity stopped declining a little earlier than in the United States. Gross National Product at constant prices declined by less than 2 per cent, and industrial production fell by 7 per cent. Employment fell less in Canada after allowance for average seasonal movements but, because of the greater growth of the Canadian population and labour force, unemployment rose as much proportionately as in the United States. By the final quarter of the year Canadian output had reached a new high.

In Canada as in the United States the principal features of the recession were a sharp inventory correction and the ending of the business capital investment boom. These developments occurred on about the same scale as in the United States, although in Canada external factors were the chief cause of the recession, particularly with respect to investment. The sharpest declines in investment outlays were in the field of export-oriented resource development.



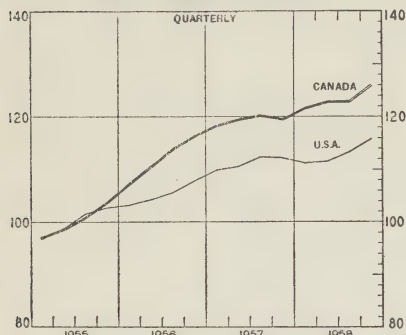
1. Scales are in the ratio of 1:14, the average ratio of Canadian to U.S. G.N.P. in 1955-58.

2. The Canadian series exclude changes in farm inventories and commercial grain stocks. The constant price series is estimated by the Bank of Canada.

RECENT ECONOMIC DEVELOPMENTS IN CANADA AND THE UNITED STATES

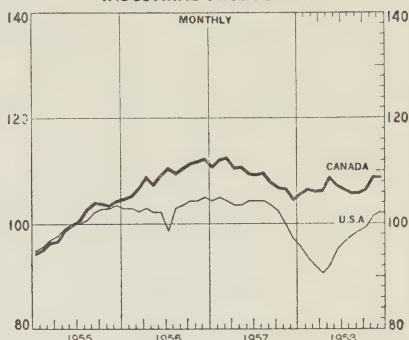
Index 1955 = 100, Seasonally Adjusted

FINAL DOMESTIC DEMAND*

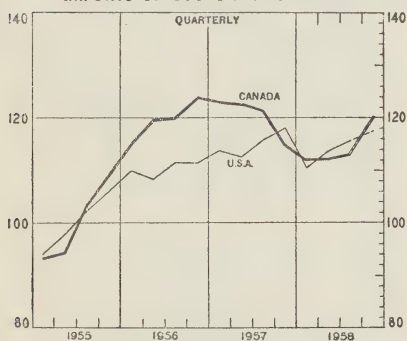


*Expenditures by consumers and governments and all fixed capital investment.

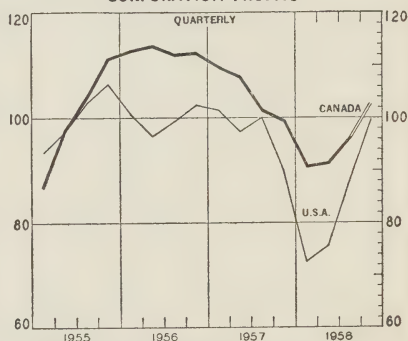
INDUSTRIAL PRODUCTION



IMPORTS OF GOODS AND SERVICES

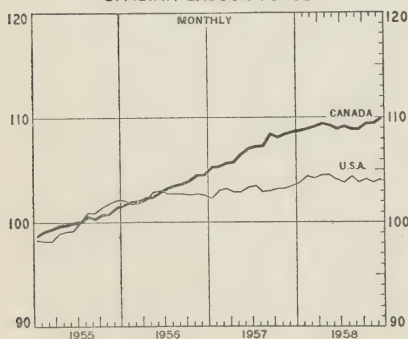


CORPORATION PROFITS*

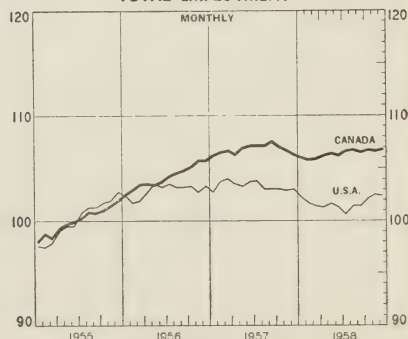


*Before taxes and dividend payments.

CIVILIAN LABOUR FORCE



TOTAL EMPLOYMENT*



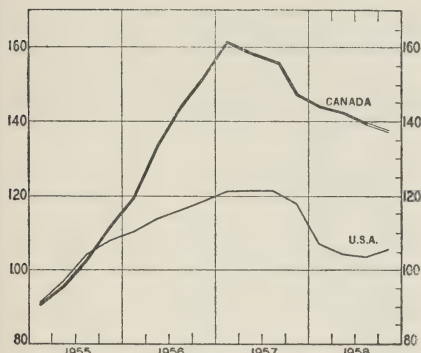
*Persons With Jobs - Labour Force Survey.

RECENT ECONOMIC DEVELOPMENTS IN CANADA AND THE UNITED STATES

Index 1955 = 100 (Except "Change in Business Inventories")

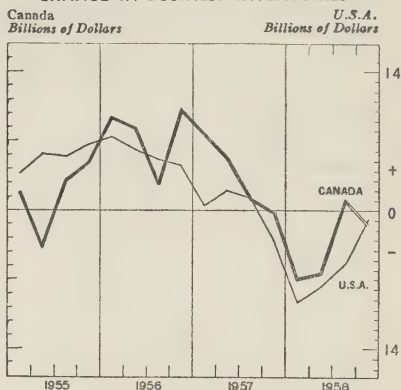
Seasonally Adjusted, Quarterly

BUSINESS FIXED INVESTMENT *

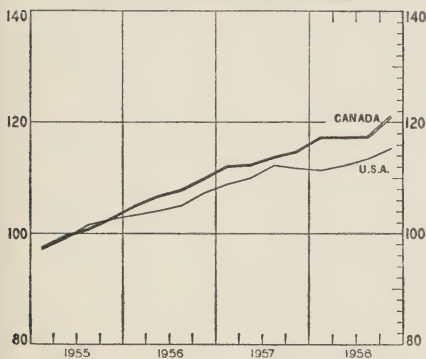


*Purchases of machinery and equipment and non-residential construction.

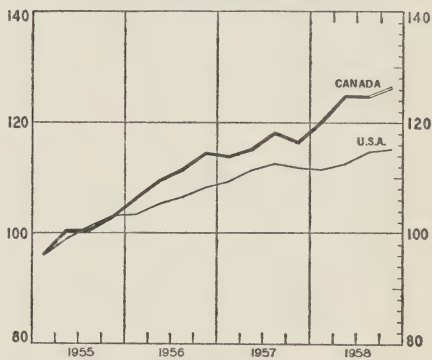
CHANGE IN BUSINESS INVENTORIES



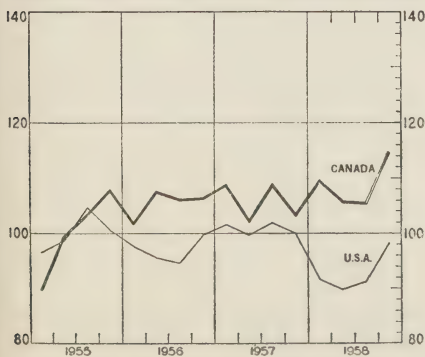
PERSONAL DISPOSABLE INCOME



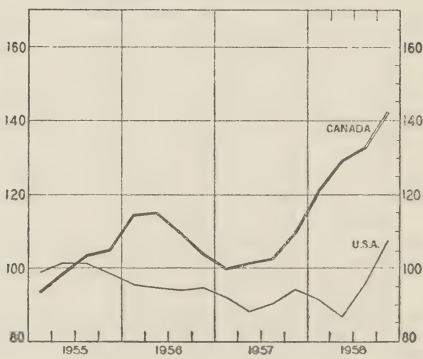
**CONSUMER EXPENDITURE
ON ALL GOODS AND SERVICES**



CONSUMER EXPENDITURE ON DURABLE GOODS

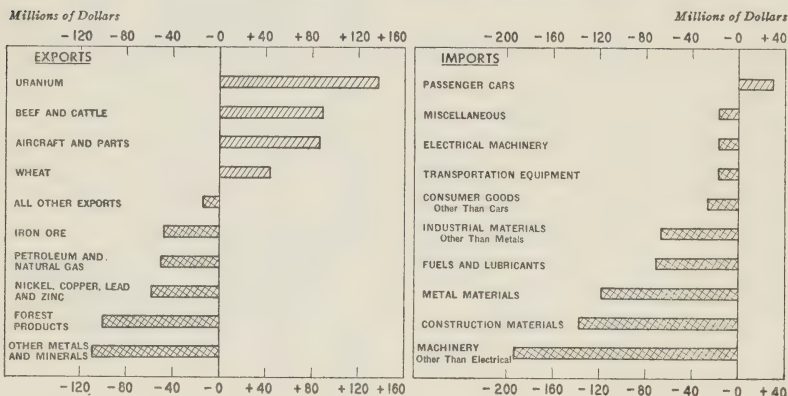


EXPENDITURE ON NEW HOUSING



When Canadian investment in plant, equipment and inventories slowed down, imports of capital goods and industrial materials declined sharply. Exports of most natural resource products were adversely affected by developments in production and consumption

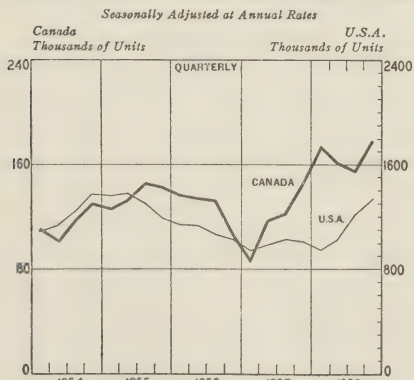
MAJOR CHANGES IN CANADA'S EXTERNAL TRADE FROM YEAR ENDING SEPT. 30th, 1957 TO YEAR ENDING SEPT. 30th, 1958



outside the country, but there was a continuing increase in exports of uranium and larger exports of cattle, wheat, military aircraft and farm machinery.

Housing activity began to rise in Canada early in 1957, about a year earlier than in the United States, and was supported by Government-financed mortgage lending on a substantial scale starting in the autumn of 1957.

HOUSING STARTS : CANADA AND UNITED STATES



The scales of old age pensions, family allowances and certain other Government transfer payments were increased and tax rates were reduced. The expansionary effect of the Government measures mentioned above was additional to the supporting effect provided automatically by "built-in stabilizers", i.e., increased unemployment insurance

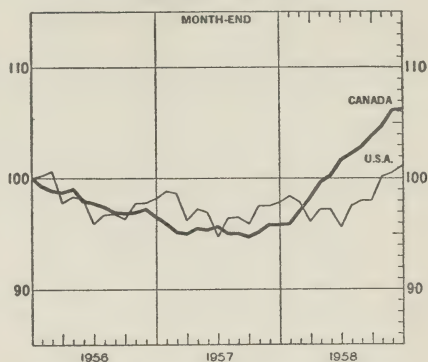
payments and the sharp reduction of tax liabilities arising from the progressive character of the tax structure. These various factors contributed to Government borrowing requirements which were much larger, relatively, than in the United States.

Consumer expenditure in Canada rose by 3 per cent between the third quarter of 1957 and the first quarter of 1958, while in the United States it declined by nearly one per cent as a result of a sharp reduction in purchases of durable goods. The difference reflected the greater strength of personal disposable income in Canada stemming in part from the effect of the Government measures referred to above. An additional support to personal income in Canada during the early part of 1958 was the strength in farm cash income.

The heavy liquidation of business inventories ceased by mid-year. The long downward movement in prices of internationally traded primary commodities also came to an end at about this time, and in the second half of the year United States demand for forest products, notably newsprint and lumber, strengthened. House-building continued strong and expenditures on goods and services by all levels of government continued to increase. Although the higher levels of personal income flowed largely into saving during the spring and summer months of 1958, thereafter retail sales rose very sharply and the automobile market

OUTSTANDING DEBT¹ OF NATIONAL GOVERNMENTS AND THEIR AGENCIES: CANADA AND THE UNITED STATES

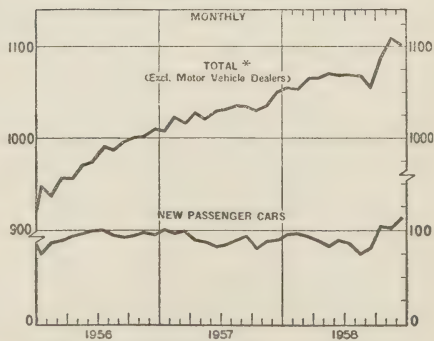
Index Dec. 31 1955=100



1. Total debt of Governments (including Government agencies) held outside Government accounts less Government bank balances.

RETAIL SALES

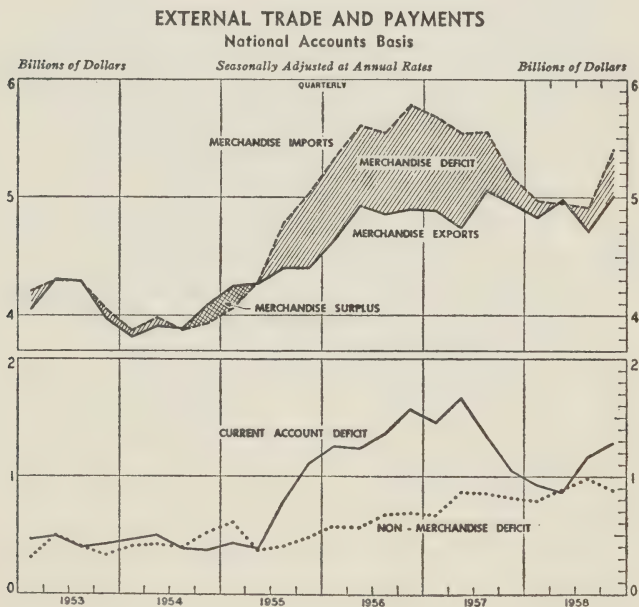
Millions of Dollars, Seasonally Adjusted



*Adjusted also for shopping days.

recovered strongly after the introduction of the 1959 models. A firm upward trend in corporate profits developed in the second half of the year, and by the end of the year the period of declining business capital investment appeared to be at or near its end.

The recovery of business activity was accompanied by a sharp increase in merchandise imports in the latter part of the year. Exports in total were about the same in the second half as in the first half. The earlier contraction of the trade deficit was reversed. There was a further increase in the net debit balance on non-merchandise transactions in 1958. For the calendar year the overall current account deficit was approximately \$1,100 million, with the annual rate running considerably above this figure in the last six months or so.



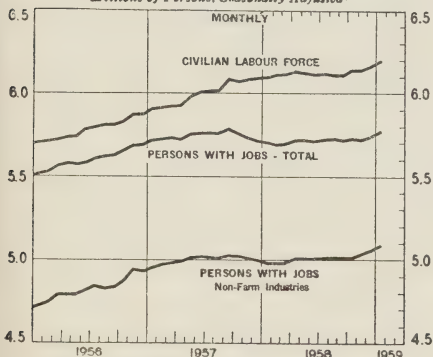
During the winter of 1957-58 the seasonal contraction in employment had been considerably more pronounced than usual but the ensuing spring and early summer pick-up was also relatively strong.

Thereafter employment followed the usual seasonal pattern until late in the year when the underlying trend firmed noticeably in response to rising demand and output.

The labour force increased by 1.2 per cent in 1958 as compared with almost 4 per cent in 1957 and an average of about 2 per cent during the four preceding years. The lesser rate was due partly to the sharp decline in net immigration and partly to a reversal of the pronounced upward trend of preceding years in the labour force participation rate, that is, the proportion of the population of working age either working or looking for work. This was most evident in the spring and summer and occurred mainly among persons of school age, persons over 65 years of age, and also among younger married women where the participation rate had been rising rapidly in recent years.

LABOUR SUPPLY AND EMPLOYMENT

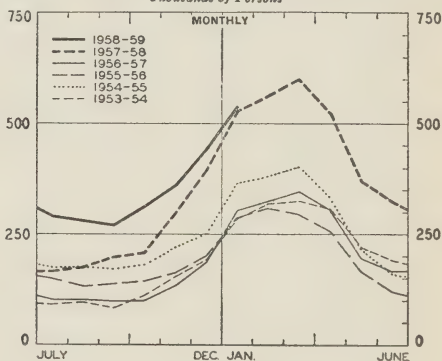
Millions of Persons, Seasonally Adjusted*



*Seasonally adjusted by the Bank of Canada.

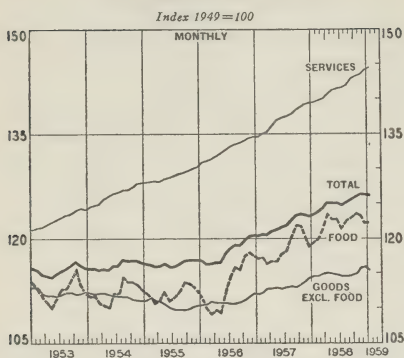
PERSONS WITHOUT JOBS AND SEEKING WORK

Thousands of Persons



The changes in the labour force and in employment gave rise to a greater than seasonal increase in unemployment during the winter of 1957-58. Thereafter these factors roughly balanced out and changes in unemployment were mainly seasonal. For the year as a whole, the average number of persons estimated in the labour force survey as without jobs and seeking work was 6.7 per cent of the labour force, about the same as in the United States.

CONSUMER PRICE INDEX



The consumer price index rose by $2\frac{1}{2}$ per cent during 1958, which was about the same rate of increase as in 1957. Food prices rose more in 1958, due largely to the trend of meat prices, and service costs continued to rise at a rate of $3\frac{1}{2}$ per cent per annum. Prices of consumer goods other than foods rose appreciably less than in 1957 or 1956.

Monetary and Financial Developments

Financial conditions in Canada during 1958 were dominated by the Government's large borrowing requirements. The first Government borrowing operation of the year was announced early in January, a \$300 million issue of 23-year Government-guaranteed CNR bonds, yielding 4.20 per cent, for delivery on February 3rd. Distribution of the new issue involved initially a large increase in bank loans to security dealers, but this was worked off in the next two months. The bond market was strong and the Bank of Canada sold medium and long-term Government bonds during January and early February. In this period of the year the Bank normally reduces its total holdings of Government securities in order to neutralize the expansive effect upon chartered bank cash reserves of the large seasonal return flow of currency from circulation. Over the first quarter general public holdings of marketable Government securities increased by \$89 million. Chartered bank holdings increased by \$213 million and Bank of Canada holdings declined by \$26 million.

In April a Government issue of \$950 million was offered, of which \$600 million was to refund issues maturing on the delivery date of May 1st. The new issues were \$200 million of 14-month bonds yielding 2.94 per cent, \$400 million of 3-year bonds yielding 3.35 per cent, \$200 million of 12-year bonds yielding 3.71 per cent, and \$150 million of 19 $\frac{3}{4}$ -year bonds yielding 4.01 per cent. By this time market expectations were changing and the general public,

excluding investment dealers, did not add to its holdings of Government securities during the period in which the issue was marketed, the public's purchases of the new bonds being offset by its sales of existing issues. The banks, which were in a strong cash and liquid asset position, bought substantial amounts of existing short and mid-term issues on trade-outs from the public, provided very large short-term loans to security dealers to finance inventories of securities following delivery of the new issues on May 1st, and also bought large amounts of the new issues for their own portfolios. This expansion of bank assets produced a very large increase in the money supply. Total holdings of marketable Government securities by the general public declined by nearly \$100 million in the two months following the offering, although public holdings of long-term Governments increased moderately during this time. Over the same period, chartered banks' holdings of Governments increased by nearly half a billion dollars.

To summarize developments over the first half of the year, the total amount of Government direct and guaranteed marketable securities outstanding rose by \$516 million and Government accounts reduced their holdings by \$237 million (almost entirely accounted for by sales of the Unemployment Insurance Fund) so that a total of \$753 million of Government securities had to be placed with the general public, the chartered banks, and the Bank of Canada. On balance, the general public did not absorb any of this net increase in the amount available. On the contrary, non-bank investors reduced their holdings of market issues by \$45 million (as well as redeeming \$178 million of Canada Savings Bonds). Bank of Canada holdings increased by \$107 million and chartered bank holdings of Government securities increased by \$691 million.

In this period chartered bank assets other than Government securities decreased by almost \$300 million, the reduction occurring mainly in loans to investment dealers and in loans to finance Canada Savings Bonds, so that total bank assets rose by \$392 million. Total currency and chartered bank deposits increased by \$429 million, and with the Government reducing its deposits by \$262 million, currency and chartered bank deposits held by the general public rose by \$692 million.

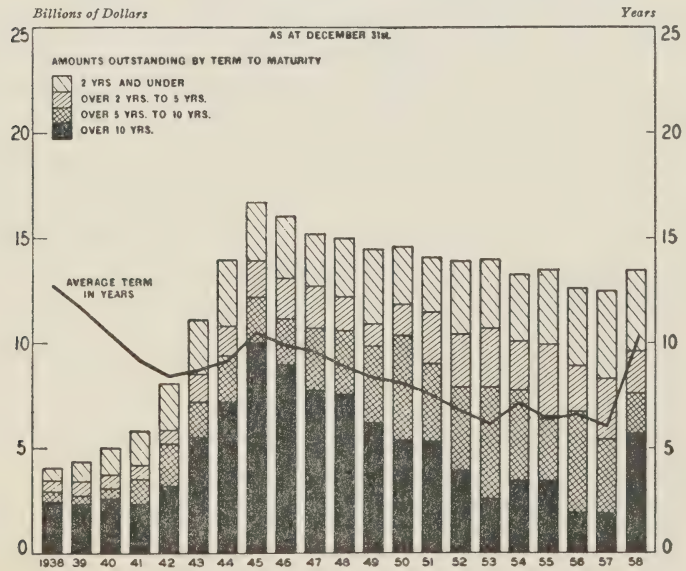
The total amount of new money raised by provinces, municipalities and corporations through the sale of bonds in the Canadian market during the first half of 1958, at \$639 million, was not far below the record level of \$713 million in the same period of 1957. Including Government of Canada issues the new money raised in the Canadian bond market in the first half of 1958 was far greater than in any half year since the war. During the early months of the year long-term bond prices were relatively stable and the prices of short-term issues were rising but in May bond prices began to decline as they had in the United States in April, and the decline rapidly steepened in both countries in June.

The marked weakness evident in both the Canadian and United States Government bond markets during June continued in early July. There were several major factors in this weakness. Particularly in the United States the view developed that the bottom of the recession had been passed, that as recovery set in there would be growing private demands for funds, and that consequently bond prices had seen their peak. An important factor in both countries, through its own weight and through its contribution to the general psychological atmosphere, was a growing awareness among dealers and investors of the size of prospective government deficits and overall borrowing requirements. The size of the increases in the money supply in Canada and the United States and the fact that prices generally continued to rise through the recession also aroused concern about the possibility of inflation. The United States Government bond market was particularly vulnerable to a rapid decline because earlier Treasury issues had gone to a substantial premium and as a result there were very large speculative purchases of a new issue early in June. The subsequent liquidation of these speculative holdings added seriously to the difficulties of the United States bond market which in turn influenced developments in the Canadian bond market.

By early July, when the next Government of Canada new money financing had to be undertaken, market conditions had become extremely unfavourable for a public issue, and \$400 million of 5-month bonds were sold directly to the chartered banks and the Bank of Canada on July 15th. The maturity date of December 15th was set in the expectation that the issue could be redeemed

from the proceeds of the regular autumn issue of Canada Savings Bonds. At the same time the Government launched the major Conversion Loan campaign. It was designed to lengthen out the Government debt by selling long-term bonds to the public in exchange for short-term Victory Loan issues they already held, which could be done more readily than by selling long-term issues for cash. Another important objective was to remove uncertainty about the disposition of the bulk of the Government's nearby maturities which had been adversely affecting all borrowers, and to enlarge the possibilities of future new money financing. In the two-month campaign over 90 per cent of the \$6,416 million of eligible issues were converted, clearing away \$900 million of bonds maturing in 1959, \$1,100 million maturing in 1960 and a further substantial amount in the immediately succeeding years. More than \$3,500 million of the Victory Loan maturities was shifted out to 1972 or 1983. The average maturity of the Government's marketable securities outstanding was increased from 6 years and 2 months to 10 years and 7 months in the period from July 15th

CLASSIFICATION BY TERM TO MATURITY
GOVT. OF CANADA DIRECT AND GUARANTEED MARKETABLE SECURITIES



to September 15th. The results of the Conversion, which was much the largest Government debt operation in Canadian history, are shown in the table below.

Results of Conversion Loan⁽¹⁾

(par values in millions of dollars)

Issues Eligible for Conversion ⁽²⁾	Converted to:				Residual Unconverted	Total
	3% Dec. 1 1961	3¾% Sept. 1 1965	4¼% Sept. 1 1972	4½% Sept. 1 1983		
3% Jan. 1, 1956-59	654	94	58	100	42	947
3% June 1, 1957-60	366	447	172	133	46	1,165
3% Feb. 1, 1959-62	—	726	238	298	54	1,316
3% Oct. 1, 1959-63	—	—	489	584	223	1,296
3% Sept. 1, 1961-66	—	—	410	1,037	245	1,692
Total . . .	1,020	1,267	1,367	2,152	610	6,416

(1) Possibly subject to minor revision when final reconciliations are complete.

(2) The 1962 issue of Victory Bonds was not eligible for exchange into the shortest Conversion issue and 1963 and 1966 Victory Bonds were not eligible for conversion into either of the two shortest Conversion issues.

In order to facilitate the maximum degree of conversion the Bank of Canada stood prepared to make markets in all maturities of Government securities during the Conversion Loan campaign, even if this should involve a substantial degree of monetary expansion. In the event, the Bank's purchases turned out to be substantially greater than its sales including large net sales of treasury bills.

The United States government securities market came under severe pressure on July 18th and this induced the Federal Reserve Open Market Committee temporarily to discard its "bills only" policy and provide some support to medium and long-term bond prices. This intervention was short-lived, however, and a fairly rapid decline in prices set in, which continued with only temporary interruptions throughout the remainder of the Conversion Loan campaign. Beginning in mid-August the Federal Reserve Banks raised their discount rates. Market sentiment strongly reflected fears of future inflation which was a major factor in both the rise in the stock market and the fall in the bond market.

By the end of July, the Canadian market was beginning to be influenced by the weakness in the U.S. market and the Bank of

Canada was a purchaser of Government bonds on balance during the remainder of the campaign on a substantial scale. The effect of these purchases in increasing chartered bank cash reserves was largely but not entirely offset by reductions in Bank of Canada holdings of treasury bills, most of which were absorbed by the banks, and total chartered bank assets and deposits increased to a marked degree.

The reduction in short-term Government debt achieved by the Conversion Loan helped make it possible once more to increase sales of new Government bond issues to non-bank investors, particularly in the short-term and mid-term area. On September 16th, the day after the Conversion campaign ended, a new \$600 million Government issue was announced for delivery on October 1st, consisting of a 9-month issue yielding 2.77 per cent and an 18-month issue yielding 2.96 per cent; of the total amount \$200 million was for new money. At the same time it was announced that the 1958 series of Canada Savings Bonds would go on sale on October 14th and would yield an average of 4.19 per cent per annum if held to maturity.

Shortly thereafter, in order to reduce the rate of increase in the money supply, the Bank of Canada began to lessen its participation in bond trading and by September 23rd only two issues, the two longer-term maturities of the Conversion Loan, were being purchased. In the latter half of September prices of most Government bond issues declined appreciably, adjusting in part to the major reduction in U.S. bond prices which had taken place during the preceding two months.

To summarize developments during the third quarter, the total amount of marketable Government securities outstanding rose by \$391 million and Government accounts increased their holdings by \$92 million so that on balance some \$300 million had to be placed. The Bank of Canada increased its holdings by \$176 million and the chartered banks increased their portfolios by \$560 million. The general public were net sellers to the extent of \$436 million. As against this decline in public holdings there was achieved a substantial lengthening in the average maturity of the public's holdings of Government bonds, as shown in the table on page 30 which gives the data for each quarter of 1958. In

General Public Holdings of Government of Canada Direct and Guaranteed Securities

(millions of dollars)

	As at Dec. 31 1958	Increase or Decrease (-) during:					
		1958				Year 1958	Year 1957
		1Q	2Q	3Q	4Q		
Treasury bills . . .	415	-50	-	80	95	125	4
Other market issues							
2 years and under .	993	-114	228	-891	528	-249	135
Over 2 & up to 5 years	413	-4	-397	-484	-42	-927	356
Over 5 & up to 10 years	693	-60	150	-1,321	-46	-1,277	-643
Over 10 years . . .	3,559	317	-116	2,180	-26	2,355	-32
Total market issues .	6,073	89	-135	-436	509	28	-180
(bonds & treasury bills)							
Canada Savings Bonds	2,895	-93	-85	-84	508	246	108
Total	8,968	-4	-220	-520	1,018	274	-73
Average maturity of	13 yrs.	+11	+2	+6 yrs.	-1 yr.	+6 yrs.	-6
market issues held .	4 mos.	mos.	mos.	9 mos.	6 mos.	4 mos.	mos.

the three months ending September 30th, 1958, the increase in total currency and bank deposits was \$669 million; excluding Government deposits, general public holdings of currency and bank deposits rose by \$770 million. In the twelve months ending on the same date the increases were \$1,421 million, or 12 per cent, and \$1,494 million, or 13 per cent, respectively. The twelve-month increase in Government securities outstanding and not held by Government accounts had been \$1,210 million so that more than the whole of the Government's financing requirements over this twelve-month period had been met by monetary expansion.

The \$200 million net increase in the supply of outstanding marketable bonds which took place as a result of the delivery of the new Government issues on October 1st was nearly matched at that time by a rise in general public, i.e., non-bank holdings, with perhaps half of the rise representing increased dealer holdings temporarily financed by loans from the banks. During October bond prices declined and Bank of Canada purchases of the two longer-term Conversion issues were on a sharply increasing scale. By substantially reducing its holdings of treasury bills and short-term bonds, the Bank of Canada was able to offset the expansionary

effect on chartered bank cash reserves of these purchases during October, but by the beginning of November the strong downward movement of other bond prices (and consequent increase in yields available to investors) had made it clear that the prices of the long-term Conversion issues could not be maintained at prevailing levels without a dangerous degree of monetary expansion and central bank purchases were discontinued. The prices of these issues declined, adjusting to the rest of the market, and bond prices generally continued to move downward until mid-December after which they rose moderately in the final weeks of the year.

The Canada Savings Bond campaign in October and early November was highly successful. The amount outstanding increased by \$508 million after allowing for redemptions of earlier issues during the fourth quarter. These funds were largely used on December 15th to pay off at maturity the \$400 million special short-term banking issue sold in July.

On December 1st a new \$400 million Government issue was announced, consisting of two maturities, a one-year bond dated December 15th yielding 3.77 per cent, and a four-year bond dated January 1st, 1959, yielding 4.34 per cent and giving the holder the option of redemption during the final two years of its term. In the allotment the one-year issue totalled \$300 million and the four-year issue \$100 million. The prices of the new issues declined in the after-market but strengthened in the latter part of the month, and the bulk of these issues was gradually taken up by the public.

As the foregoing indicates there was a marked reversal in the trend of the general public holdings of Government securities during the final quarter of 1958. Public holdings of marketable issues increased by \$509 million and in addition, as noted above, they bought Canada Savings Bonds on an unusually large scale in the annual campaign. As the table on the facing page shows, the increase in public holdings of marketable securities was in short-term maturities; this was the area of the market in which new Government of Canada financing took place. The public has continued to add to its holdings of marketable Government securities in the first two months of 1959, including some increase in middle and long-term maturities. (See table on page 54 and charts on page 55.)

The Government security holdings of the chartered banks and the Bank of Canada were reduced during the quarter by somewhat more than the amount involved in the retirement of the December 15th maturity. Chartered bank assets other than Government securities, however, expanded on balance more than seasonally. Total currency and bank deposits increased by \$225 million during the fourth quarter, all of the increase having taken place in early October. As a result of the increase in Government balances through the sale of new bond issues, the total amount of currency and chartered bank deposits held by the general public declined by \$35 million during this period. (See tables on pages 36 and 43 and charts on pages 38, 39, 44, 45.)

Bank of Canada Operations. The substantial increases during 1958 in the money supply and in chartered bank assets, including the large increase in chartered bank holdings of Government securities, could not have occurred without a considerable expansion of the cash reserves of the chartered banks, which on the statutory daily average basis rose from \$879 million in December 1957 to \$1,013 million in December 1958, or by \$134 million. This increase and a substantial rise in general public holdings of Bank of Canada notes over the same period were provided for by the Bank of Canada mainly through net purchases of Government securities of \$194 million over the year.

Besides adding substantially to its total holdings of Government securities during the year, the Bank made a very large shift in its portfolio from short-term to long-term securities, mainly during the period of the Conversion Loan. This shift resulted from the exchange of all of its own holdings of Victory Loan issues for longer-term Conversion Loan issues, from market purchases of Conversion and other issues during and after the campaign, and from sales of other (short-term) Government bonds and treasury bills. Changes in the Bank's portfolio, classified by term to maturity, are shown in the table on the facing page.

The changes which occurred in the maturity distribution of the Bank's holdings of Government securities during 1958 have not impaired its ability to operate a flexible monetary policy. In relation to the possible scale of desired changes in the cash reserves of

Bank of Canada Holdings of Government of Canada Direct and Guaranteed Securities

(millions of dollars—amortized value)

	As at Dec. 31, 1958	Increase or Decrease (-) during:				
		1958				Year 1958
		1Q	2Q	3Q	4Q	
Treasury bills	36	13	-110	-300	-34	-431
Other market issues						
2 years and under . .	245	115	232	-775	-105	-534
Over 2 & up to 5 years .	552	-2	-294	234	-53	-115
Over 5 & up to 10 years	462	-62	134	90	-1	161
Over 10 years	1,326	-82	165	916	114	1,113
Total	<u>2,622</u>	<u>-18</u>	<u>128</u>	<u>165</u>	<u>-79</u>	<u>194</u>

the chartered banks the Bank of Canada still has an adequately diversified portfolio out of which to sell if it wishes to reduce bank cash, or to offset increases in bank cash resulting from seasonal return flows of currency from public circulation, and there is of course no limitation on its power to purchase Government securities in order to increase bank cash.

In 1958 central bank advances were outstanding on 40 days as against 59 days in 1957; the maximum on any one day in 1958 was \$26 million. The Bank of Canada held securities purchased from money market dealers under resale agreements on 50 days during the year as compared with 103 days in the previous year; the maximum outstanding on any one day was \$50 million. The Bank Rate, which is the minimum rate at which the Bank makes advances and provides funds to money market dealers through purchase and resale agreements, was maintained at a level $\frac{1}{4}$ of 1 per cent above the average rate of treasury bills at the most recent weekly tender; it was 3.87 per cent at the beginning of the year, reached a low of 1.12 per cent on July 31st, and stood at 3.74 per cent at the close of the year.

In 1958 the total amount of Bank of Canada notes outstanding increased by \$94 million as compared with an increase of \$35 million in 1957. The distribution by denomination is shown in the table on the following page.

Bank of Canada Note Liabilities

(as at December 31st—in thousands of dollars)

		1950	1956	1957	1958
Notes issued by the Bank of Canada					
\$1	.	50,273	70,270	72,589	75,873
2	.	37,279	50,371	51,952	53,597
5	.	111,731	138,004	139,839	143,010
10	.	429,886	528,741	528,575	533,078
20	.	346,060	555,755	582,163	627,814
25	.	47	46	46	46
50	.	108,735	134,381	134,803	143,606
100	.	254,457	364,052	365,479	391,629
500	.	160	58	51	49
1,000	.	11,489	13,233	14,661	15,928
Total	.	1,350,117	1,854,912	1,890,159	1,984,630
Chartered banks' notes*		12,487	9,025	8,799	8,655
Dominion of Canada notes*	.	4,702	4,651	4,648	4,645
Provincial notes*	.	28	28	28	28
Defunct banks' notes*	.	88	88	88	88
Total Bank of Canada note liabilities	.	1,367,422	1,868,704	1,903,721	1,998,046
Held by:					
Chartered banks	.	231,306	370,938	348,606	338,176
Others	.	1,136,116	1,497,766	1,555,115	1,659,870

*These are note issues which are in the process of being retired and the liability for them has been taken over by the Bank of Canada from the original issuers.

Chartered Banks. The major Canadian and net foreign assets of the chartered banks, which rose substantially in the latter part of 1957, increased by a further \$1,278 million, or by 12 per cent, in 1958. On balance all of the increase had occurred by early October and total assets have been relatively stable since that time. A marked increase in assets other than Government securities late in the year was offset by a decline in holdings of Government securities resulting mainly from the retirement on December 15th of the special banking issue of July 15th. Details of the changes in chartered bank assets and deposit liabilities are shown in the table on page 36 and in the charts on pages 38 and 39.

Most of the increase in chartered bank assets in 1958 was in the form of Government securities. The banks increased their holdings of treasury bills by \$145 million and Government bonds by \$727 million, a total of \$872 million. At the end of the year the banks' total holdings of Government securities were higher by \$1,080 million, or by 44 per cent, than at the low point reached in August 1957. The total of their more liquid assets — Bank of Canada deposits and notes, day-to-day loans, treasury bills, Government bonds, call loans and net foreign assets — rose by \$791 million in 1958 and at year-end was \$1,289 million greater than in August 1957. The ratio of the total of these more liquid assets to the total of chartered bank major Canadian and net foreign assets, which had reached a low of 34.4 per cent in August 1957, reached 41.6 per cent immediately after the purchase by the banks of the special banking issue on July 15th, 1958 and the high point while this issue was still outstanding was 43.5 per cent on October 1st. Excluding the special banking issue, the October 1st high was 40.6 per cent. At year-end after the special banking issue had been retired, the ratio was 40.0 per cent as compared with 37.5 per cent at December 31st, 1957.

Insured mortgages held by the chartered banks increased by \$204 million in 1958 compared with an increase of \$93 million in 1957. Chartered bank gross disbursements on mortgages (i.e. before deduction of sales and repayments) are estimated to have been \$260 million in 1958 as against \$145 million in 1957. The amount of mortgage loans approved by the banks in 1958 was \$300 million; the comparable 1957 figure was \$173 million. Net

Chartered Banks: Changes in Major Assets and Deposit Liabilities

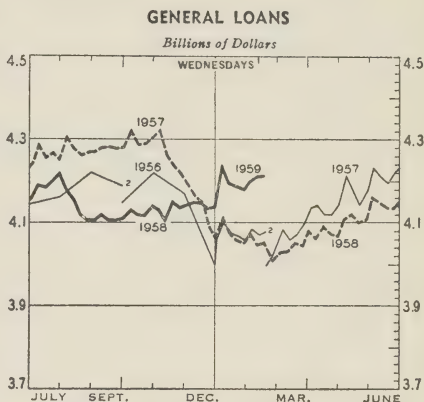
(month-end figures—millions of dollars)

Chartered Bank Assets	As at Dec. 31, 1958	Increase or Decrease (-) during:						
		1957		1958				
		3Q	4Q	1Q	2Q	3Q	4Q	Year
Bank of Canada notes and deposits . . .	1,001	—	96	—29	37	106	21	135
Day-to-day loans . .	123	30	85	—113	—3	—56	85	—87
Treasury bills . . .	950	131	—110	—5	82	215	—147	145
Sub-total . . .	2,074	161	71	—147	116	265	—42	193
Government bonds . .	2,562	—24	116	211	399	335	—219	727
Call loans	116	—52	77	—25	—40	—35	24	—75
Net foreign assets . .	88	62	48	—56	—36	6	32	—54
Total of more liquid assets . . .	4,840	147	312	—17	440	572	—204	791
Loans to provinces . .	69	8	56	—59	—17	24	31	—20
Loans to municipalities	217	—32	—11	91	—83	29	—13	24
Loans to grain dealers and exporters . . .	351	5	—5	—11	—66	27	—11	—61
Loans for purchase of Canada Savings Bonds	169	—42	154	—60	—55	—40	148	—7
Loans to instalment finance companies . .	352	—28	—41	—14	20	—12	77	71
General loans	4,138	54	—204	—39	111	—48	52	75
Insured mortgages . .	790	29	53	30	26	71	77	204
Provincial securities . .	415	13	13	31	36	26	38	130
Municipal securities . .	195	—4	2	5	9	3	9	26
Corporate securities . .	554	—3	—	—5	20	10	21	45
Total of above assets	12,089	148	329	—48	440	660	226	1,278
Chartered Bank Deposits								
Personal savings deposits	6,844	156	—104	274	219	340	—97	736
Government deposits	319	—55	291	—172	—90	—101	260	—104
Other deposits (less float)	4,303	29	108	—142	280	427	13	578
Total deposits (less float)	11,466	131	295	—41	409	666	176	1,210
Float	1,224	15	87	—166	104	10	125	73
Total deposits (before deduction of float)	12,690	146	382	—207	513	676	301	1,283

purchases of provincial, municipal and corporate securities amounted to \$201 million in 1958 as compared to net sales of \$8 million in 1957. The increase in 1958 was made up of \$130 million of provincial securities, \$26 million of municipal securities and \$45 million of corporate securities.

Although the chartered banks were in a position to accommodate a substantial increase in their loans throughout 1958, general loans remained below the corresponding 1957 levels until late in the year, and then rose in the period in which they normally decline sharply. The increase for the year as a whole was \$75 million. Within general loans the trend of personal loans was strongly upward throughout 1958 and over the year as a whole personal loans increased by \$173 million, or by 24 per cent. Business loans declined during the year by \$141 million. As business establishments reduced their inventories and capital invest-

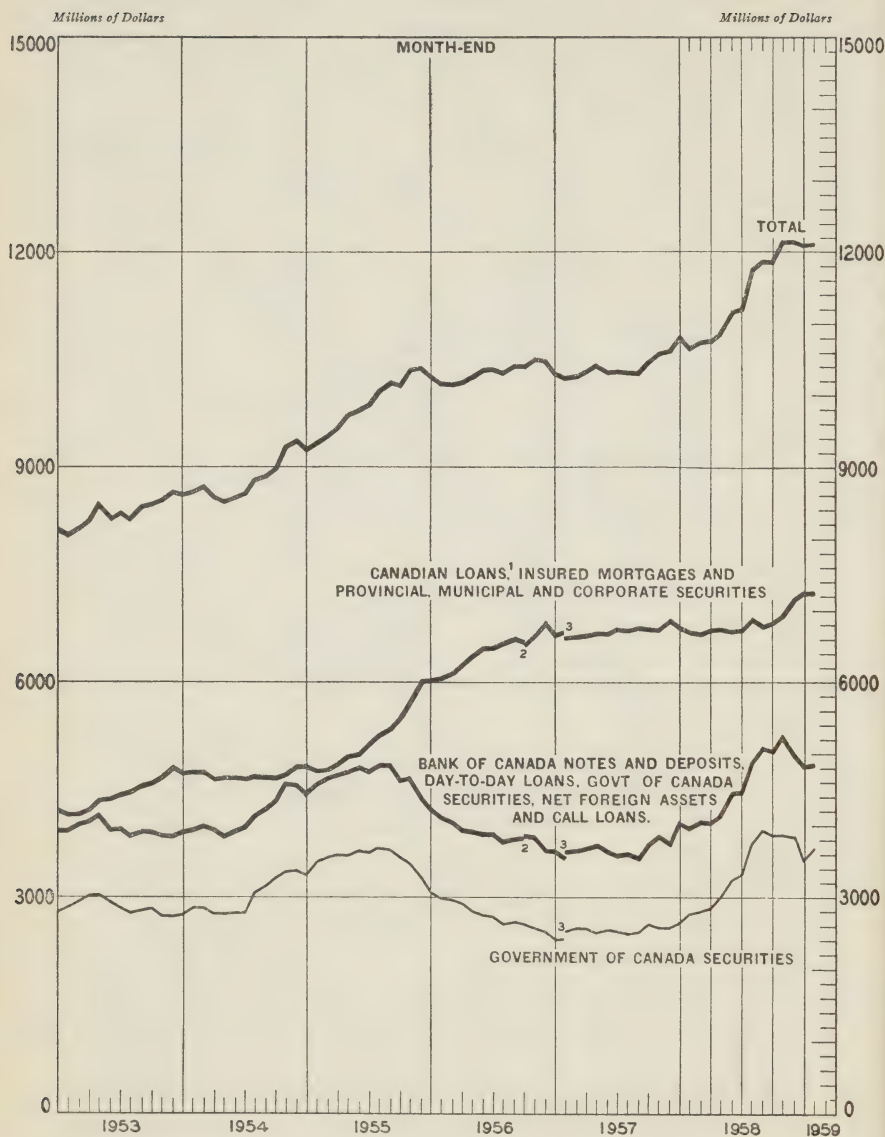
ment outlays, they were able to improve their liquid positions and to reduce their bank loans in spite of a temporary decline in sales and profits. Some large corporations reduced their bank loans out of the proceeds of new issues sold in the securities market. Corporations which had financed capital investment programmes on the basis of large term loans from banks two or three years ago were able to reduce their borrowings substantially or repay them altogether. The decline in demand for bank credit was particularly marked in the categories of the iron and steel industry, mining, petroleum and products, forest products and merchandising concerns. Toward the end of the year, however, business demand for bank credit began to show definite signs of revival, and the seasonal decline in business loans in the final quarter of the year was less than normal. Over the year loans to farmers rose by \$19 million and other general loans increased by \$25 million.



1. Month-end figures prior to January 1957.

2. For explanation of breaks in series see footnotes 2 and 3 on page 38.

CHARTERED BANKS: MAJOR ASSETS

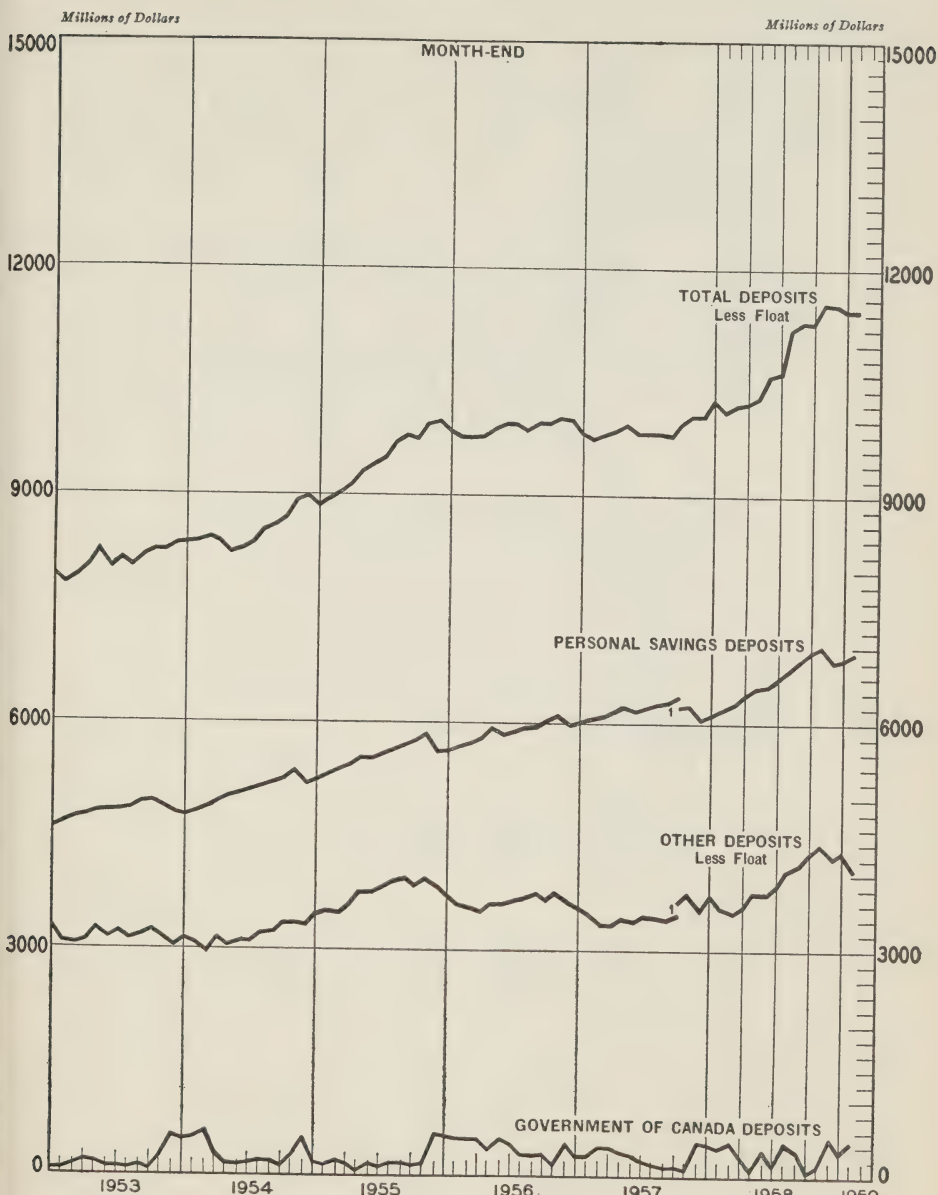


1. Excluding day-to-day and call loans.

2. Foreign currency loans in Canada were reclassified from "Canadian loans" to "Net foreign assets" beginning September 30, 1956.

3. Reserves applied against various classes of assets were reallocated following change in method of valuing Government and provincial securities on January 31, 1957.

CHARTERED BANKS: DEPOSIT LIABILITIES



1. Certain institutional and semi-business accounts were reclassified from "Personal savings deposits" to "Other deposits" on September 30, 1957.

Classification of General Loans* (millions of dollars)

Business Loans -

Accounts with Authorized Limits of:

	\$100,000 or more			Less than \$100,000	Total Amount Outstanding	Total Amount Outstanding		
	Total Amount Authorized	Total Amount Outstanding	Percentage of Authorizations Unused					
1956—Apr. 30 ⁽²⁾	3,717	1,786	52	944	840	338	79	3,987
June 30 ⁽²⁾	3,716	1,877	49	971	842	338	79	4,107
Sept. 30	3,805	1,940	49	934	823	368	83	4,148
Dec. 31	3,787	1,895	50	870	786	357	90	3,998
1957—Mar. 31 ⁽³⁾	3,811	2,033	47	886	745	309	83	4,056
June 30	3,864	2,130	45	902	761	329	91	4,213
Sept. 30	4,046	2,169	46	889	748	357	104	4,267
Dec. 31	4,148	2,033	51	841	725	349	115	4,063
1958—Mar. 31	4,226	1,991	53	862	754	299	117	4,023
June 30	4,321	1,964	55	914	809	333	114	4,134
Sept. 30	4,339	1,856	57	903	838	363	125	4,086
Dec. 31	4,457	1,821	59	912	898	368	140	4,138

* Excludes day-to-day loans, call loans to investment dealers and stockbrokers, loans to finance the purchase of Canada Savings Bonds, and loans to provinces, municipalities, grain dealers and finance companies.

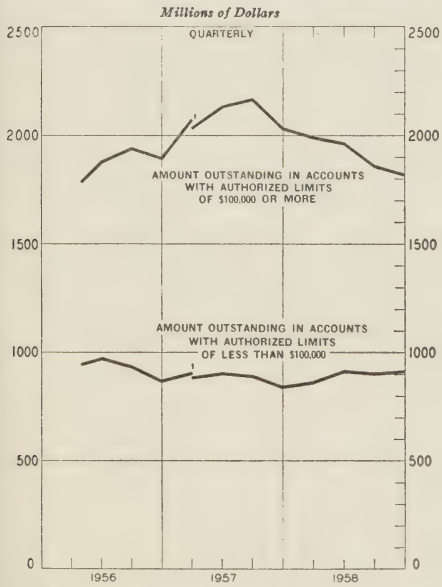
(1) Religious, educational, health and welfare institutions.

(2) Excludes an estimate of foreign currency loans in Canada and therefore is not comparable with published data.

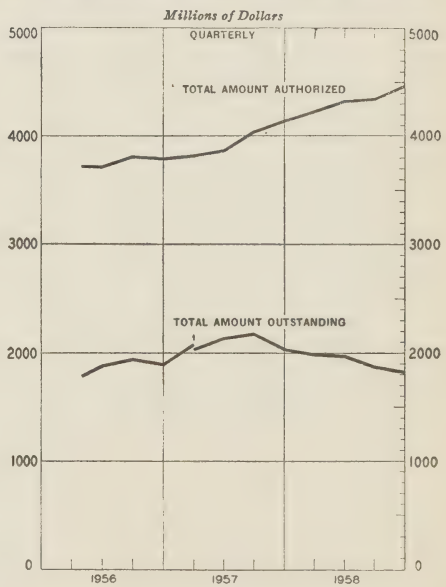
(3) The continuity of series is affected by the reallocation of reserves following a change in the method of valuing Government of Canada and provincial securities on January 31st, 1957.

The table on the facing page shows an estimated classification of chartered bank business loans according to the size of the authorized limits on borrowing accounts (i.e. on the size of the lines of credit authorized by the banks). Accounts are divided into two groups: those with authorized limits of \$100,000 or more, and those with authorized limits of less than \$100,000. For accounts with authorized limits of \$100,000 or more, the table shows the total amount of authorized limits, the total amount of loans actually outstanding under these authorizations, and the percentage of authorizations unused. In the case of business loans with authorized limits less than \$100,000 (as well as the other categories of general loans) the table shows outstanding amounts only. The table is for quarter-end dates and is carried back to April 30th, 1956 which is the first date for which information by size is available.

SIZE CLASSIFICATION OF BUSINESS LOANS



BUSINESS LOAN ACCOUNTS WITH AUTHORIZED LIMITS OF \$100,000 OR MORE



1. See footnote 3 page 40.

As the table on page 40 shows, business loans outstanding with authorized limits of \$100,000 or more declined by \$212 million during 1958 and the outstanding amount of loans in accounts with authorized limits of less than \$100,000 increased by \$71 million.

Although the amount outstanding in accounts with authorized limits of \$100,000 or more declined considerably during 1958, total authorizations in this category continued to increase substantially. As a result the unused portion of these lines of credit rose to 59 per cent at the end of 1958 as compared with 51 per cent a year earlier and 45 per cent at the low point for this ratio in 1957.

A further revision of the chartered bank agreement on term loans to business corporations took place in 1958. In 1955 the banks agreed to cease making loans to business corporations in amounts exceeding \$250,000 where the time of repayment was deferred beyond one year, and to cease making equivalent security purchases direct from borrowers in this category. In February 1958 the maximum was raised from \$250,000 to \$1,000,000, and in November it was further raised from \$1,000,000 to \$2,000,000.

Currency and Chartered Bank Deposits. Between July 1957 and October 1958 total currency and chartered bank deposits rose by about \$1½ billion or by 15 per cent. The upward trend in this period is shown in the charts on pages 44 and 45. From early October to the end of 1958 there was no further increase. For the calendar year 1958 the increase was \$1,323 million or 11 per cent. Within the overall total, the amount held by the general public rose by \$1,427 million, or by 12 per cent, during the year. This increase included a rise of \$736 million in personal savings deposits, which was much the largest on record. Details are shown in the table on the facing page.



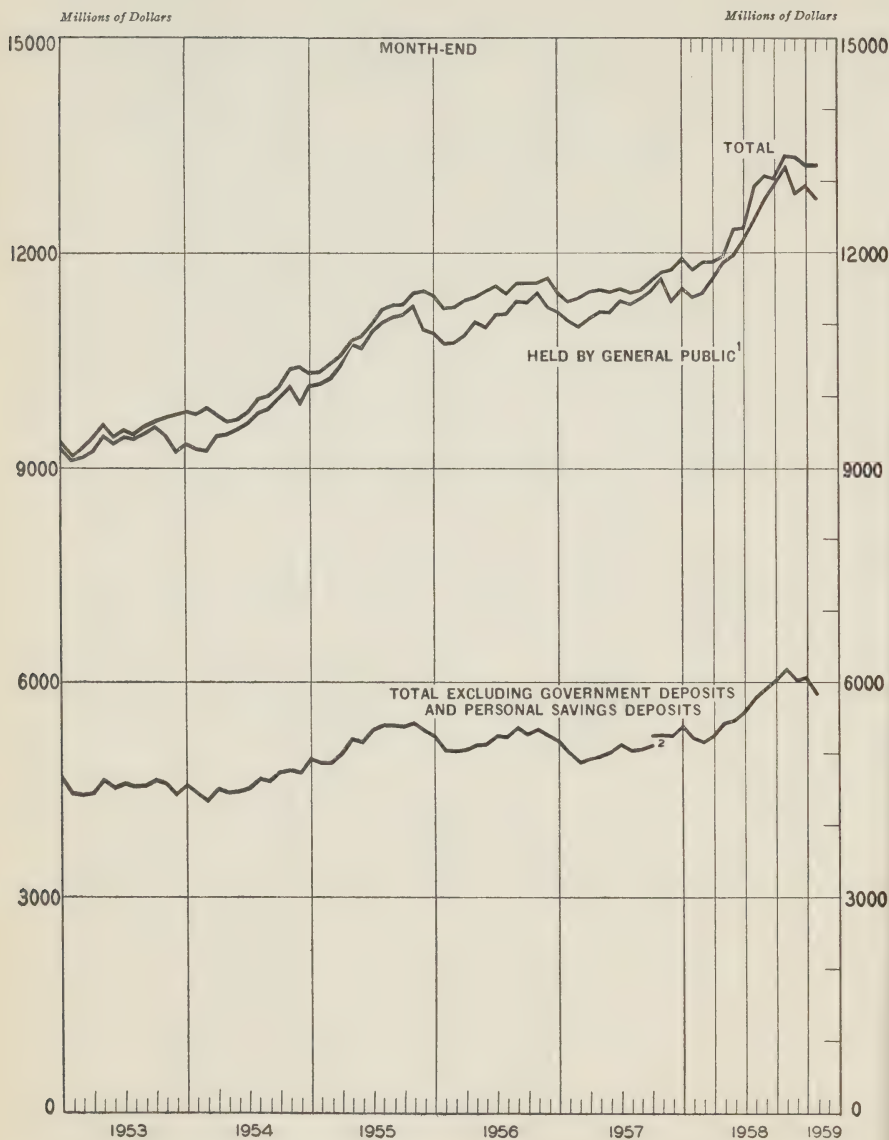
Currency and Chartered Bank Deposits

(month-end figures—millions of dollars)

	As at Dec. 31, 1958	Increase or Decrease (-) during:							
		1957		1958				Year 1958	
		3Q	4Q	1Q	2Q	3Q	4Q		
Held by general public:									
Currency outside banks	1,781	-30	28	-2	63	3	49	114	
(notes and coin)									
Deposits (other than personal savings deposits) ⁽¹⁾	4,303	29	108	-142	280	427	13	578	
Personal savings deposits	6,844	156	-104	274	219	340	-97	736	
Total ⁽¹⁾	12,927	156	32	129	563	770	-35	1,427	
Government deposits	319	-55	291	-172	-90	-101	260	-104	
Total currency and chartered bank deposits ⁽¹⁾									
	13,247	101	323	-43	472	669	225	1,323	

(1) Less total float.

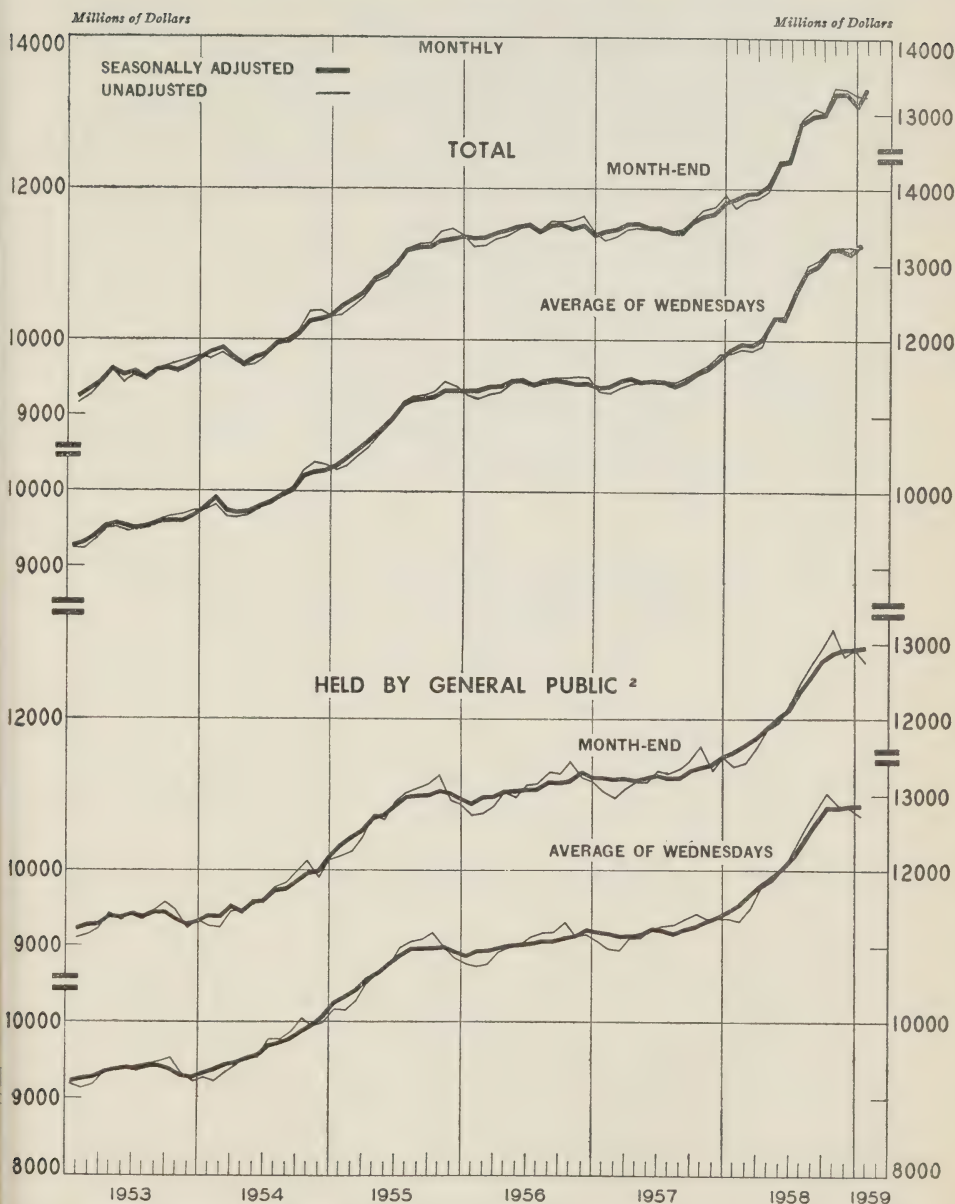
CURRENCY AND CHARTERED BANK DEPOSITS



1. Total excluding Government of Canada deposits.

2. See footnote 1 on page 39.

SEASONALLY ADJUSTED CURRENCY AND CHARTERED BANK DEPOSITS ¹



1. Seasonal adjustment by Univac Method II.
2. Total excluding Government of Canada deposits.

Other Financial Assets Held by the General Public. In addition to the large increase in their holdings of currency and chartered bank deposits the general public (i.e. non-bank investors, including non-residents) substantially increased their holdings of the fixed-interest obligations of Canadian borrowers. Holdings of Government securities (including treasury bills) rose by \$274 million in 1958 as compared with a decline of \$73 million in 1957. General public holdings of provincial, municipal and corporate bonds rose by about \$1,400 million, as against an increase of about \$1,800 million in 1957. The total of Government securities, provincial, municipal and corporate bonds and finance company paper held by the general public increased by \$1,566 million in 1958, which was slightly less than in 1957, but more than the increase in any other non-war year. Details are shown in the table below. Comparable information is not available on general public holdings of other assets of this type such as mortgages and institutional deposits.

**General Public⁽¹⁾ Holdings of Government of Canada Securities,
Provincial, Municipal and Corporate Bonds
and Finance Company Short-Term Paper**

(par values—millions of dollars)

As at Dec. 31	Government of Canada Securities				Provincial, Municipal and Corporate Bonds	Finance Company Short- term Paper	Total
	Treasury Bills	Other Market Issues	Canada Savings Bonds ⁽²⁾	Total			
1951	26	8,053	1,194	9,273	6,932	118	16,323
1952	28	7,631	1,250	8,909	7,843	137	16,889
1953	24	7,483	1,632	9,139	8,737	193	18,069
1954	208	6,331	2,090	8,629	9,756	154	18,539
1955	494	6,042	2,433	8,969	10,302	213	19,484
1956	285	5,940	2,541	8,766	11,939	307	21,012
1957	289	5,756	2,649	8,693	13,730	355	22,778
1958	415	5,658	2,895	8,968	15,132	244	24,344

(1) Non-bank investors, including non-residents.

(2) Includes war savings certificates prior to 1954 and refundable tax in 1951.

Consumer Credit and Finance Companies. The outstanding amount of consumer credit extended by retail dealers and finance companies increased by an estimated \$40 million in 1958, as compared with increases of \$58 million in 1957, \$281 million in 1956 and \$237 million in 1955. There was relatively little change in the total during the first nine months of 1958 apart from the usual seasonal variations, but the trend was upward toward the end of the year. Changes in 1958 are summarized in the table below.

**Finance Company and Retail Dealer Credit Extended
to Consumers**

(millions of dollars)

	Balances Outstanding		Increase or Decrease (-) during 1958
	<u>Dec. 31 1958</u>	<u>Dec. 31 1957</u>	
Instalment finance companies .	737	780	-43
Small loan companies . . .			
— instalment credit . . .	19	15	4
— cash loans	381	347	34
Department stores			
— instalment credit . . .	224	209	15
— charge accounts	58	53	5
Other retail dealers			
— instalment credit . . .	270*	271	-1*
— charge accounts	319*	293	26*
Total	<u>2,008*</u>	<u>1,968</u>	<u>40*</u>

*Preliminary estimate.

In addition to the reduction of \$43 million in the consumer financing of instalment finance companies, there was a decline of \$22 million in their outstanding balances on other retail financing and of \$14 million on wholesale financing. Total receivables of instalment finance companies and small loan companies declined by about \$40 million during the year. These companies reduced their borrowing in the form of short-term paper by \$111 million while their bank loans rose by \$71 million.

Housing Finance. The total value of mortgage loans approved by lending institutions and Central Mortgage and Housing Corporation amounted to \$1,199 million in 1958 as compared with \$752 million in 1957. Nearly one-third of the total was supplied by C.M.H.C. Each of the three major groups of private institutional lenders — the chartered banks, life insurance companies, and trust and loan companies — substantially increased the amount of mortgage loans approved in 1958 over 1957. No figures are available regarding the flow of mortgage funds from lenders other than these institutions and C.M.H.C.

**Mortgage Loans Approved by Lending Institutions
and Central Mortgage and Housing Corporation
on New Non-Farm Residential Construction**

(millions of dollars)

		<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958*</u>
Lending institutions					
Chartered banks	— NHA loans	326	158	173	300
Life insurance companies	— NHA loans	271	227	96	171
	Other loans	157	190	155	181
	Total .	428	417	251	353
Trust, loan and other companies	— NHA loans	42	40	9	47
	Other loans	78	65	84	109
	Total .	120	105	93	157
Total		874	680	517	810
Central Mortgage and Housing Corporation		18	20	235	389
Total — Lending institutions and Central Mortgage and Housing Corporation .		<u>892</u>	<u>700</u>	<u>752</u>	<u>1,199</u>

*Preliminary.

Securities Markets. In 1958, \$3,034 million of new money was raised by Canadian borrowers (Government, provinces, municipalities, corporations and institutions) through the sale of treasury bills, bonds, stocks and finance company paper as compared with \$2,262 million in 1957. Of the 1958 total, \$2,537 million was raised in Canada as against \$1,833 million in the previous year. Details are shown in the table on page 50 and the chart on page 51.

Government of Canada direct and guaranteed securities outstanding increased by \$1,252 million; in 1957 there had been a decline of \$70 million. The amount of treasury bills outstanding decreased by \$130 million while other direct market securities increased by \$841 million and guaranteed issues increased by \$295 million. Canada Savings Bonds outstanding increased by \$246 million during the year. Changes in the distribution of Government securities by types of issue and by categories of holders are shown in the table on page 54 and the chart on page 55.

The total amount of new money raised in the bond market by provincial and municipal governments, corporations and institutions amounted to \$1,602 million in 1958, a decline of \$168 million from the record level reached in 1957. The provinces raised less new money in the Canadian market in 1958 than in 1957 but more in New York, and the total was \$43 million higher. Municipalities raised substantially larger amounts of new money in both the Canadian and New York markets, with the total \$120 million higher than in 1957. Corporations borrowed considerably less in both markets in 1958, net new issues being down by \$331 million. Details are shown in the table on page 52. New issues of corporate stocks in 1958 were \$224 million lower than in 1957.

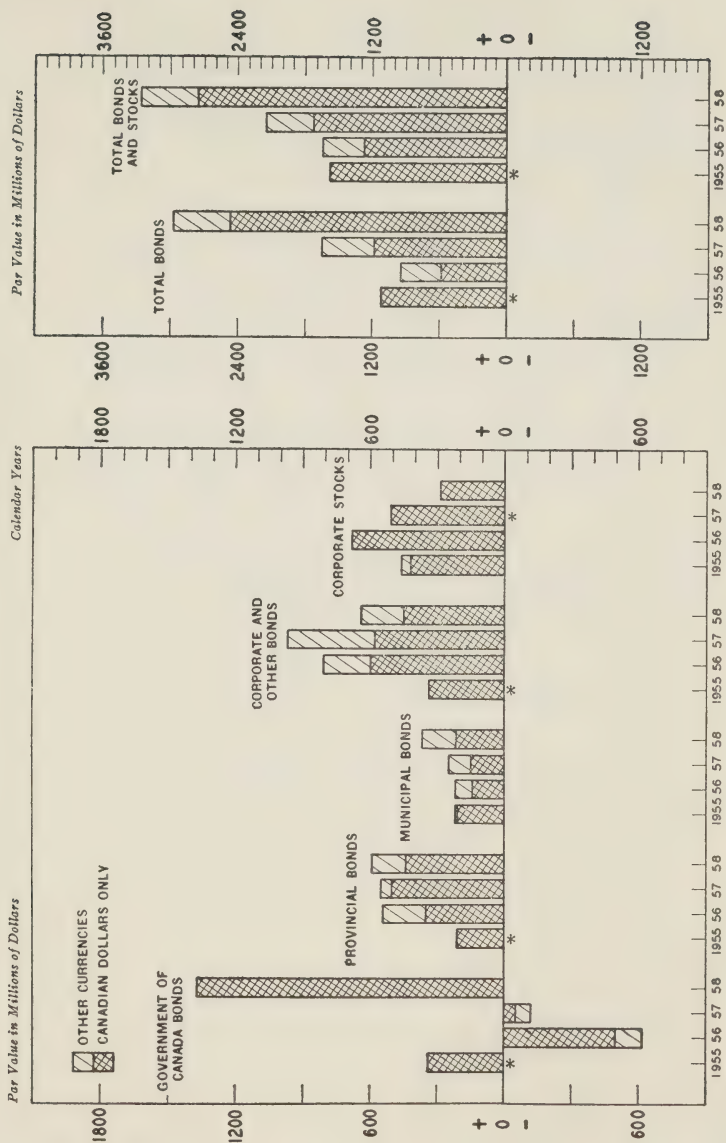
Changes in net new issues of provinces, municipalities and corporations by quarters are shown in the table on page 53. Apart from seasonal variations, the level of net new borrowing by provinces and municipalities was relatively high throughout 1958. The volume of net new corporate bond issues was high in the first half of the year but declined in the second half. New issues of corporate stocks, which had been relatively low in the first nine months of the year, rose in the final quarter.

Net New Issues of Securities⁽¹⁾ (millions of dollars)

	1956			1957			1958		
	Cdn. \$ only	Other Currencies	Total	Cdn. \$ only	Other Currencies	Total	Cdn. \$ only	Other Currencies	Total
Government of Canada securities ⁽²⁾									
Bonds	-500	-116	-616	-52	-68	-120	1,383	-2	1,382
Treasury bills and notes	-150	-	-150	50	-	50	-130	-	-130
Total	-650	-116	-766	-2	-68	-70	1,253	-2	1,252
Non-Government bonds									
Provincial ⁽²⁾	348	191	540	504	44	548	438	153	591
Municipal ⁽²⁾	140	83	223	151	96	248	217	151	368
Corporate and other ⁽³⁾	598	209	807	586	388	974	450	193	643
Total	1,087	484	1,570	1,242	528	1,770	1,105	497	1,602
Corporate stocks ⁽⁴⁾									
Preferred	176	-	176	124	-33	90	39	-	39
Common	509	3	512	421	2	423	251	-	251
Total	685	3	688	544	-31	514	290	-	290
Finance co. short-term paper ⁽⁵⁾									
Totals: Bonds	587	367	955	1,190	460	1,650	2,488	496	2,984
Bonds and stocks	1,272	370	1,642	1,735	429	2,164	2,778	496	3,274
All securities	1,216	370	1,586	1,833	429	2,262	2,537	496	3,034

(1) Gross new issues less retirements. 1958 figures are preliminary. (2) Includes guaranteed securities. (3) "Other" bonds, all Canadian dollar issues, include those of religious and other institutions, Australia, and the International Bank for Reconstruction and Development. (4) Canadian stock issues with dividends payable in U.S. dollars are shown under "Other Currencies". (5) Paper with an original term to maturity of one year or less.

NET NEW ISSUES OF BONDS AND STOCKS¹



1. Gross deliveries of new issues less retirements.
 * Based on net new issues after deduction of net retirements of foreign-pay issues which were as follows: 1955 - Government of Canada bonds - \$60 million; Provincial bonds - \$50 million; Corporate bonds - \$37 million; Total bonds - \$130 million; 1957 - Corporate bonds - \$31 million.

Gross New Issues and Retirements of Provincial, Municipal and Corporate Bonds⁽¹⁾ (*millions of dollars*)

		Gross New Issues Delivered			Retirements			Net New Issues		
		Cdn. \$ only	Other Currencies	Total	Cdn. \$ only	Other Currencies	Total	Cdn. \$ only	Other Currencies	Total
Provincial bonds ⁽²⁾	.	1955		371	110	50	161	261	-50	211
	.	1956	-	635	72	23	95	348	191	540
	.	1957	214	766	128	89	217	504	44	548
	.	1958	133	680	77	12	89	438	153	591
Municipal bonds ⁽²⁾	.	1955	166							
	.	1956	514	341	91	25	116	208	17	225
	.	1957	299	357	110	24	134	140	83	223
	.	1958	107	396	122	26	148	151	96	248
Corporate and other bonds ⁽³⁾	.	1955	122	514	121	25	146	217	151	368
	.	1956	338							
	.	1957	741	750	362	46	408	379	-37	342
	.	1958	824	1,053	226	19	246	598	209	807
Total bonds	.	1955	229	1,218	218	26	244	586	388	974
	.	1956	413	891	236	12	248	450	193	643
	.	1957	205							
	.	1958	741	1,462	563	121	684	848	-70	777
	.	1955	51	2,045	408	67	475	1,087	484	1,570
	.	1956	550	2,380	469	141	610	1,242	528	1,770
	.	1957	669	2,085	434	49	483	1,105	497	1,602
	.	1958	547							

(1) 1958 figures are preliminary. New issues are based on delivery dates rather than dates of offering.

(2) Includes guaranteed bonds.

(3) "Other" bonds, all Canadian dollar issues, include those of religious and other institutions, Australia, and the International Bank for Reconstruction and Development and amounted to \$52 million in 1955, \$13 million in 1956, \$11 million in 1957, and \$6 million in 1958 on a gross basis, and \$22 million in 1955, \$4 million in 1956, \$5 million in 1957, and minus \$1 million in 1958 on a net basis.

Net New Issues of Provincial, Municipal and Corporate Bonds and Stocks*

(millions of dollars)

	Provincial & Municipal Bonds		Corporate & Other Bonds		Total Bonds		Corporate Stocks
	Cdn. \$ only	Other Currencies	Cdn. \$ only	Other Currencies	Cdn. \$ only	Other Currencies	
1956—I	83	90	162	17	245	107	114
II	126	71	147	48	273	119	185
III	87	93	127	63	214	156	238
IV	193	20	162	81	355	102	150
1957—I	89	87	206	120	294	207	66
II	161	—12	258	186	419	174	144
III	96	48	32	60	128	108	220
IV	310	17	91	22	401	39	83
1958—I	125	78	152	58	277	136	28
II	183	143	179	86	362	229	85
III	110	37	60	36	170	73	30
IV	237	46	59	13	296	59	147

*Gross new issues less retirements.

Net New Issues of Corporate Bonds and Stocks Industrial Classification⁽¹⁾

(millions of dollars)

	1955	1956	1957	1958
Uranium mines	68	122	66	34
Other mining and mine products . . .	227	211	200	77
Petroleum and products	164	200	177	154
Wood, paper and products	—39	127	42	37
Other manufactured products	34	78	41	49
Railways and telegraphs	—31	—21	—20	56
Pipelines	9	138	269	107
Telephones	80	146	167	127
Other utilities	59	115	297	194
Merchandisers	52	58	29	10
Instalment finance and small loan companies	33	145	88	5
Other finance, insurance and real estate .	107	150	125	83
Other	19	22	2	1
Total	782	1,491	1,483	934

(1) Does not include issues guaranteed by provincial governments (e.g. net new issues of provincial hydro commissions which amounted to \$120 million in 1955, \$261 million in 1956, \$315 million in 1957, and \$288 million in 1958).

Distribution of Holdings of Government of Canada Direct and Guaranteed Securities

(par values—millions of dollars)

	As at Dec. 31, 1958	Increase or Decrease (-) during:					
		1958				1958	1957
		1Q	2Q	3Q	4Q	Total	Total
Bank of Canada							
Treasury bills . . .	36	13	-110	-301	-34	-433	-39
Other market issues .	2,634	-38	243	477	-42	640	75
Total	2,670	-26	133	176	-76	207	37
Chartered Banks							
Treasury bills . . .	956	-5	81	216	-144	148	65
Other market issues .	2,565	218	397	344	-228	731	52
Total	3,520	213	478	560	-372	879	118
Government Accounts							
Unemployment Ins. Fund							
Treasury bills . . .	54	-57	-	-	54	-3	26
Other market issues .	566	-74	-103	4	-79	-252	-76
Total	619	-131	-103	4	-25	-255	-50
Securities Investment Account							
Treasury bills . . .	25	-	-	-	25	25	-
Other market issues .	100	50	-50	75	25	100	-160
Total	125	50	-50	75	50	125	-160
Other Government accounts							
Treasury bills . . .	10	-1	-	5	4	8	-7
Other market issues .	504	2	-4	7	9	14	65
Total	514	1	-4	13	12	22	59
General Public⁽¹⁾							
Treasury bills . . .	415	-50	-	80	95	125	4
Other market issues .	5,658	139	-135	-516	414	-97	-185
Total market issues .	6,073	89	-135	-436	509	28	-180
of which —							
non-residents ⁽²⁾ .	635	2	21	16	58	97	-45
life insurance cos. ^{(2) (3)}	574	48	-7	-18	12	35	-62
all other holders ^{(1) (2)}	4,864	39	-149	-434	439	-104	-73
Canada Savings Bonds .	2,895	-93	-85	-84	508	246	108
Total	8,968	-4	-220	-520	1,018	274	-73
Total Outstanding							
Treasury bills . . .	1,495	-100	-30	-	-	-130	50
Other market issues .	12,026	297	349	391	98	1,136	-227
Canada Savings Bonds .	2,895	-93	-85	-84	508	246	108
Total	16,416	104	235	307	607	1,252	-70

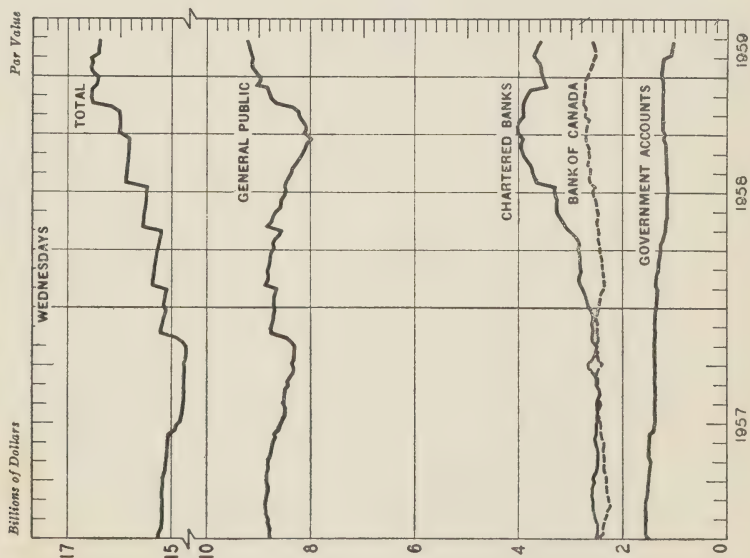
(1) Residual. Includes investment dealers.

(2) Preliminary estimates.

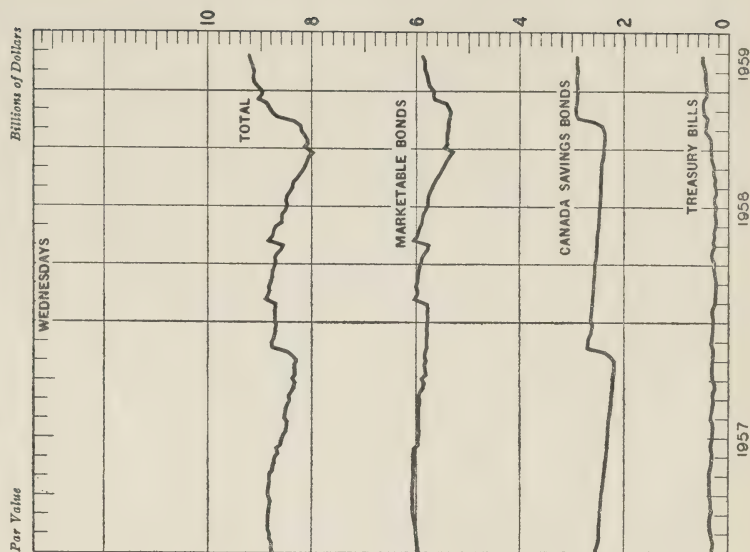
(3) Holdings in respect of Canadian operations.

GOVERNMENT OF CANADA DIRECT AND GUARANTEED SECURITIES OUTSTANDING

DISTRIBUTION BY MAJOR HOLDERS



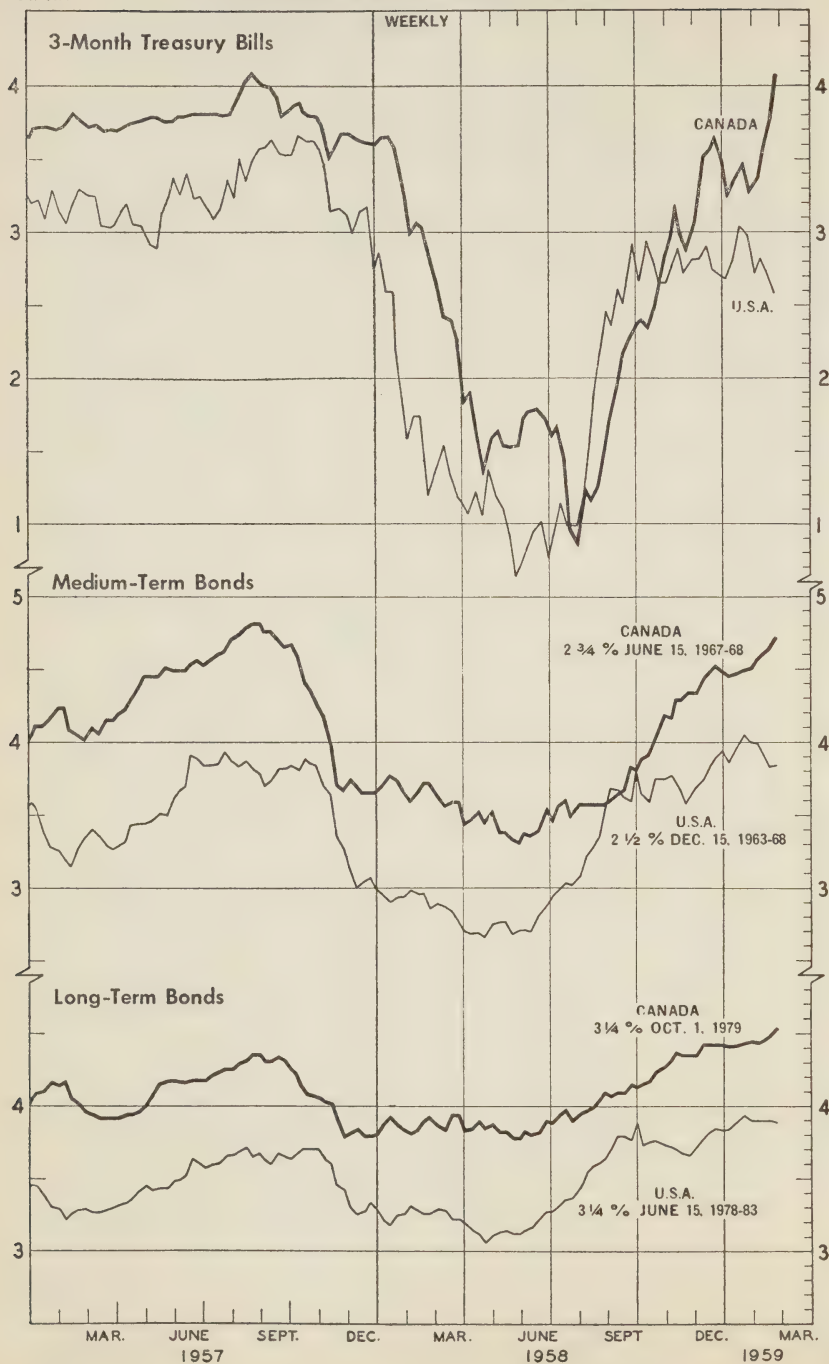
GENERAL PUBLIC HOLDINGS BY TYPE OF SECURITY



GOVERNMENT SECURITY YIELDS CANADA AND UNITED STATES

Per Cent

Per Cent



Interest Rates. Trends in interest rates in 1957 and 1958 are shown in the chart on the facing page and the table on page 58. Yields on long-term Government of Canada bonds, which declined sharply from August to December 1957, were relatively stable until the latter part of May, and then rose during the remainder of the year to a level above the 1957 high. Interest rates on long-term Government bonds in the United States followed a broadly similar trend, declining from October 1957 to mid-April 1958 and then rising to higher levels than those reached in 1957. Yields on Canadian long-term bonds, other than Government bonds, declined from the autumn of 1957 until the second quarter of 1958 and then rose gradually during the remainder of the year, but did not reach the peak levels of 1957. The differential between yields on Government and other long-term bonds, which had widened in 1956 and 1957, narrowed considerably in the second half of 1958.

Yields on short-term Government bonds and treasury bills declined from August 1957 to July 1958 and have risen appreciably since that time. At the end of 1958 yields on short-term bonds, except those with less than one year to maturity, were not far below the long-term yields.



Interest Rates

(per cent per annum)

	High 1957	Dec. 31 1957	June 4 1958	July 9 1958	Oct. 1 1958	Dec. 31 1958
Three-month treasury bills ⁽¹⁾	4.08	3.60 ⁽²⁾	1.72	1.66	2.37	3.49
Chartered bank prime commercial loan rate.	5¾	5½	5¼	5¼	5¼	5¼
Government bond yields						
2¾% June 15, 1967-68	4.81	3.66	3.37	3.56	3.81	4.48
3¾% Jan. 15, 1975-78	4.29	3.80	4.02	4.26	4.37	4.76
3¼% Oct. 1, 1979	4.35	3.80	3.82	3.93	4.13	4.42
4% Feb. 1, 1981 (CNR)	-	-	4.21	4.40	4.62	4.89
4½% Sept. 1, 1983	-	-	-	-	4.56	4.81
Other long-term bond yields ⁽³⁾						
10 provincials	5.18	4.60	4.47	4.59	4.97	5.14
10 municipals	5.77	5.12	4.98	5.17	5.30	5.38
10 public utilities	5.50	5.03	4.81	4.81	4.95	5.14
10 industrials	5.77	5.04	4.88	4.88	5.15	5.22
40 bond average.	5.53	4.95	4.79	4.86	5.09	5.22
Savings deposits						
Chartered banks.	2¾	2¾	2¾	2¾	2¾	2¾
Trust companies (typical rate)	3¼	3¼	3¼	3¼	3¼	3¼
Trust company investment certificates (1 year)	4½-5	4¼-5	2¾-3	2¾-3	2¾-3	4

(1) Average rate at tender closest to date shown.

(2) January 2, 1958.

(3) Source: McLeod, Young, Weir & Company Limited. Figures shown refer to the first business day of the month closest to the date shown.

Public Debt Operations. The details of new issues and retirements of Government bonds during 1958 are summarized in the table on page 60. Operations associated with new issues of market securities were described earlier in this section of the Report.

The 1958 series of Canada Savings Bonds maturing November 1st, 1973, went on sale in October. The first annual coupon pays interest at the rate of $3\frac{1}{2}$ per cent and the remaining 14 coupons at $4\frac{1}{4}$ per cent, providing an average yield of 4.19 per cent if held to maturity. At December 31st total sales of this series amounted to \$844 million while total redemptions and maturities of all series during the year were \$598 million so that the net increase in Canada Savings Bonds outstanding during the year amounted to \$246 million. In 1957 total sales amounted to \$1,252 million while redemptions totalled \$1,145 million so that the net increase was \$108 million. Payroll sales of the 1958 series were \$207 million compared to \$217 million of the 1957 series. The total amount of Canada Savings Bonds outstanding at the end of 1958 was \$2,895 million or 17.6 per cent of the Government's total direct and guaranteed securities outstanding and 32.3 per cent of that part of the debt which was held by the general public.

The Government announced on July 29th the call for prior payment at par on February 1st, 1959 of the 3 per cent Government issue of \$150 million due August 1st, 1963 which was payable in United States funds. In earlier years the Government had purchased \$129.5 million of the original issue and held it in a special Sinking Fund account.



New Issues and Retirements of Government of Canada Direct and Guaranteed Bonds, 1958 (Excluding Canada Conversion Loan⁽¹⁾)

Date of Issue or Redemption	Type of Security	Amount (millions of dollars)		Currency of Payment	Coupon Rate %	Date of Maturity	Earliest Call Date	Issue Price	Yield %
		New issue	Retirement						
Feb. 1	CNR — Govt. Gtd.	300		C	4	Feb. 1/81	NC	97.00	4.20
May 1	Govt. Loan . . .	200		C	2½	July 1/59	NC	99.50	2.94
May 1	Govt. Loan . . .	400		C	3	May 1/61	NC	99.00	3.35
May 1	Govt. Loan . . .	200		C	3½	May 1/70	NC	98.00	3.71
May 1	Govt. Loan . . .	150 ⁽²⁾		C	3¾	Jan. 15/78	Jan. 15/75	96.50	4.01
May 1	Govt. Loan . . .		125	C	3	May 1/58	NC		
May 1	Govt. Loan . . .		475	C	2	May 1/58	NC		
July 15	Govt. Loan . . .	400		C	2½	Dec. 15/58	NC	100.00	2.50
July 20	Cdn. Northern Rly. —								
	Govt. Gtd. . .		6	C£	3½	July 20/58	NC		
Oct. 1	Govt. Loan . . .	300 ⁽²⁾		C	2½	July 1/59	NC	99.80	2.77
Oct. 1	Govt. Loan . . .	300		C	2¾	Apr. 1/60	NC	99.70	2.96
Oct. 1	Govt. Loan . . .		400	C	3	Oct. 1/58	NC		
Dec. 15	Govt. Loan . . .	300 ⁽³⁾		C	3	Dec. 15/59	NC	99.25	3.77
Dec. 15	Govt. Loan . . .		400	C	2½	Dec. 15/58	NC		
Canada Savings Bonds		844	598						
Other Retirements . . .			8						
Total		3,394	2,012						

(1) For details of the Conversion Loan see the table on page 28.

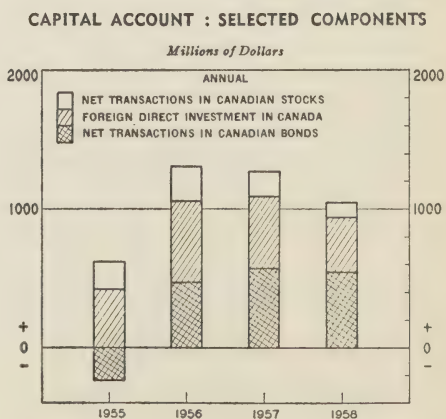
(2) An addition to an outstanding bond issue.

(3) Part of \$400 million issue. The remaining \$100 million was a 4 per cent loan dated January 1, 1959 to mature January 1, 1963 offered at 98.75% to yield 4.34%. These bonds are redeemable at the option of the holder beginning January 1, 1961 or any subsequent interest date to July 1, 1962 at the issue price.

International Capital Account. Reference was made earlier in this Report to movements in Canada's external trade in 1958 (pages 20 and 22). For the year as a whole merchandise imports were down substantially while merchandise exports were virtually unchanged, and the trade deficit dropped from \$579 million in 1957 to \$174 million in 1958. Meanwhile, the adverse balance on non-merchandise transactions rose from \$821 million to \$938 million. The total current account deficit declined from \$1,400 million to \$1,112 million.

The persistent increase in Canada's net current payments on non-merchandise transactions has been a striking feature of the past decade. In the earlier years the factors mainly responsible were the swing in our tourist account from a net credit to a net debit as Canadian tourist expenditures in other countries rose, and the increase in freight and shipping payments. In recent years the increase in payments relating to various foreign investments in Canada has been the most important factor. Interest payments have risen rapidly since 1956 as a result of the large increase in new issues of bonds by Canadian borrowers in the United States. Dividend payments to other countries, after declining in 1952 and 1953, have increased substantially since that time. In addition, business expenditures including remittances by subsidiaries or affiliated companies to foreign concerns for administrative, engineering, research and advertising services have risen with the increase in foreign direct investment in Canada.

In 1958, as in the two previous years, inflows of long-term capital into Canada were almost equal to the current account deficit. The total of all transactions in Canadian-debtor bonds gave rise to a net inflow of \$544 million, only slightly lower than in the previous year. Much the greater part of net sales of Canadian-debtor bonds to non-residents con-



Capital Account : Canadian Balance of International Payments⁽¹⁾
(*millions of dollars*)

	1957				1958				1953	
	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1957</u>	<u>1953</u>
CURRENT ACCOUNT BALANCE . . .	-427	-528	-195	-250	-282	-331	-195	-304	-1,400	-1,112
Foreign direct investment in Canada ⁽²⁾	+91	+163	+137	+129	+85	+95	+90	+130	+520	+400
Canadian direct investment abroad ⁽²⁾	-20	-22	-18	-5	-15	-10	+15	-5	-65	-15
Canadian Securities										
New Issues: bonds	+242	+271	+132	+82	+165	+272	+91	+101	+727	+629
stocks	+22	+25	+10	+6	+3	+18	+5	+11	+63	+37
Retirements	-41	-23	-45	-28	-16	-38	-8	-42	-137	-104
Net trade in outstanding bonds .	-10	-3	-15	-15	-1	-10	-5	-22	-43	-6
Net trade in outstanding stocks .	+40	+47	+43	+7	+3	+13	+35	+32	+137	+83
Transactions in foreign securities (net)	-13	+17	+10	+5	+8	-	+8	+13	+19	+29
Loans by Government of Canada										
Drawings	-	-	-	-	-16	-8	-	-10	-	-34
Repayments	+7	+19	+7	+17	+7	+17	+7	+33	+50	+64
Increase (+) in Canadian dollar holdings of non-residents	-33	-26	+7	+18	-16	+40	+90	-9	-34	+105
Decrease (+) in official holdings of gold and foreign exchange	+13	-22	+53	+61	-39	-52	+32	-50	+105	-109
Other capital movements (net) . . .	+129	+82	-126	-27	+114	-6	-165	+78	+58	+21
CAPITAL ACCOUNT BALANCE . . .	+427	+528	+195	+250	+282	+331	+195	+304	+1,400	+1,112

(1) Capital Inflows shown as (+) and outflows as (-).

(2) Exclusive of undistributed profits.

Source: Dominion Bureau of Statistics.

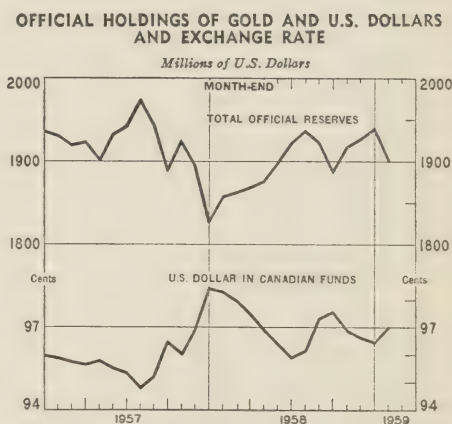
sisted of provincial, municipal and corporate issues payable in United States dollars. Net sales of corporate bonds were much lower than in 1957, but the decline was partially offset by increased sales of provincial and municipal issues. (For details of new issues and retirements of bonds in currencies other than Canadian dollars see pages 50 and 52.) In 1958, for the first time since 1950, it is estimated that non-residents added to their holdings of Government of Canada securities, the larger proportion of their purchases being made in the latter part of the year.

New foreign direct investment in Canada, at \$400 million in 1958, was below the levels of the two preceding years and about equal to that in 1955.

Net sales of stocks of Canadian corporations to non-residents in 1958 were well below the levels of the three preceding years. Net sales to the United Kingdom fell sharply from the 1957 level, and sales to the United States rose.

The value of the U.S. dollar in Canadian funds decreased from \$.98 13/32 at the end of 1957 to a low of \$.95 3/4 in June, firmed somewhat in the summer and then declined again to close the year at \$.96 7/16. With the value of the U.S. dollar in Canadian funds in the foreign exchange market falling through much of the year, purchases of U.S. dollars by the Exchange Fund exceeded sales, and Canada's official holdings of gold and U.S. dollars rose to \$U.S. 1,939 million by the end of 1958, an increase of \$U.S. 111 million on the year compared with a decrease of \$U.S. 108 million in 1957.

Profit and Loss. In 1958 the net earnings of the Bank amounted to \$88,631,680 as compared with \$68,711,435 in 1957. The whole of the net earnings was paid to the Receiver General of Canada to be placed to the credit of the Consolidated Revenue Fund.



BANK OF CANADA • STATEMENT

ASSETS

	<u>1958</u>	<u>1957</u>
Foreign exchange		
Pounds sterling and U.S.A. dollars — at market value	\$ 55,171,186	\$ 63,505,125
Other currencies — at market value	146,078	122,332
	<u>\$ 55,317,264</u>	<u>\$ 63,627,457</u>
Cheques on other banks	\$ 96,375,308	\$ 65,246,237
Accrued interest on investments	<u>\$ 28,111,958</u>	<u>\$ 15,336,391</u>
Advances to chartered and sav- ings banks	<u>\$ 2,000,000</u>	
Investments — at amortized values		
Treasury bills of Canada	\$ 35,942,726	\$ 467,061,608
Other securities issued or guaran- teed by Canada maturing with- in two years	245,182,572	779,151,604
Other securities issued or guaran- teed by Canada not maturing within two years	2,340,637,247	1,181,259,744
Debentures issued by Industrial Development Bank	52,917,274	36,197,240
Other securities — U.S.A. Government	38,495,990	16,681,418
	<u>\$ 2,713,175,809</u>	<u>\$ 2,480,351,614</u>
Industrial Development Bank		
Total share capital at cost	<u>\$ 25,000,000</u>	<u>\$ 25,000,000</u>
Bank premises		
Land, buildings and equipment — at cost less amounts written off	<u>\$ 9,795,652</u>	<u>\$ 8,597,725</u>
Net balance of Government of Canada payments and collections in process of settlement	<u>\$ 14,295,801</u>	
Other assets	<u>\$ 348,147</u>	<u>\$ 548,252</u>
	<u><u>\$ 2,944,419,939</u></u>	<u><u>\$ 2,658,707,676</u></u>

J. E. COYNE, *Governor*
Ottawa, January 22, 1959.

E. FRICKER, *Chief Accountant*

ASSETS AND LIABILITIES

AT DECEMBER 31, 1958

(Comparative figures at December 31, 1957)

LIABILITIES

	1958	1957
Capital paid up . . .	\$ 5,000,000	\$ 5,000,000
Rest fund . . .	\$ 25,000,000	\$ 25,000,000
Notes in circulation .	\$ 1,998,046,299	\$ 1,903,721,143
Deposits		
Government of Canada .	\$ 34,883,957	\$ 35,363,078
Chartered banks . . .	662,696,930	517,571,524
Other	25,021,571	31,232,958
	<u>\$ 722,602,458</u>	<u>\$ 584,167,560</u>
Liabilities payable in pounds sterling, U.S.A. dollars and other foreign currencies		
To Government of Canada .	\$ 75,998,717	\$ 59,988,766
To others	7,922,651	10,043,676
	<u>\$ 83,921,368</u>	<u>\$ 70,032,442</u>
Bank of Canada cheques outstanding	\$ 108,046,826	\$ 53,170,067
Net balance of Government of Canada collections and payments in process of settlement .		\$ 15,132,271
Other liabilities	\$ 1,802,988	\$ 2,484,193
	<u><u>\$ 2,944,419,939</u></u>	<u><u>\$ 2,658,707,676</u></u>

Auditors' Report • We have made an examination of the statement of assets and liabilities of the Bank of Canada as at December 31, 1958 and have received all the information and explanations we have required. We report that in our opinion, it correctly sets forth the position of the Bank at December 31, 1958 according to the best of our information and as shown by the books of the Bank.

G. A. ADAMSON,
of Clarkson, Gordon & Co.

ROSAIRE COURTOIS,
of Courtois, Fredette & Cie.

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PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 1958
(with comparative figures for the year ended December 31, 1957)

	<u>1958</u>	<u>1957</u>
Profit for the year	<u>\$88,631,680</u>	<u>\$68,711,435</u>
Paid to the Receiver General of Canada for credit of the consolidated revenue fund .	<u><u>\$88,631,680</u></u>	<u><u>\$68,711,435</u></u>

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•

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UNIVERSITY OF TORONTO
BUSINESS ADMINISTRATION
READING ROOM

4



BANK OF CANADA

**ANNUAL REPORT OF
THE GOVERNOR TO THE
MINISTER OF FINANCE**

AND STATEMENT OF ACCOUNTS

FOR THE YEAR 1959



CANADA

“WHEREAS it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion: Therefore, . . .”

—Preamble to the Bank of Canada Act

BANK OF CANADA

February 29, 1960.

The Hon. Donald M. Fleming, Q.C.,
Minister of Finance,
Ottawa.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act I am transmitting herewith my report for the year 1959, and a statement of the Bank's accounts for this period which is signed and certified in the prescribed manner.

Yours very truly,

J. E. COYNE,
Governor.

BANK OF CANADA
REPORT OF THE GOVERNOR
1959

I should like to preface my review of economic and financial developments in 1959 with some general remarks about the nature and limitations of monetary policy and about the economic environment in which monetary policy and economic policy in general operate.

The primary function of a central bank is to regulate the total quantity of money, which is a short phrase rather arbitrarily applied to the combination of the amount of currency in circulation outside the banks plus the amount of the deposit liabilities of those banking institutions which are required to maintain a reserve of deposits with the central bank expressed as a percentage of their own deposit liabilities. As Bagehot emphasized some 87 years ago, "Money will not manage itself", and it is necessary for a central bank from time to time to form a judgment in the light of changing circumstances as to whether its own operations should be such as to facilitate an increase or induce a decrease in the stock of money as so defined, or to hold it more or less constant.

In Canada the chief criteria which must be taken into consideration by a central bank are laid down by Act of Parliament in the preamble to the Bank of Canada Act of 1934. In addition to a broad directive to the Bank "to regulate credit and currency in the best interests of the economic life of the nation", and "generally to promote the economic and financial welfare of the Dominion", it is also prescribed that the Bank should endeavour "to mitigate by its influence fluctuations in the general level of production, trade, prices and employment so far as may be possible within the scope of monetary action".

It will be generally agreed that the best interests of the economic life of the nation and the economic welfare of Canada are served if economic activity is carried on in such a way as to produce steady and substantial growth from year to year, a continuously high level of employment, and the avoidance of disturbing fluctuations upwards or downwards in the general level of prices.

The chief method by which a central bank can bring some influence to bear on economic developments is by open market operations, that is, by buying and selling treasury bills and government bonds in the market.* Payment by the central bank for securities which it purchases in the market adds to the cash reserves of the reserve-system banks and (unless other factors are tending to reduce reserves) makes it possible for them to progressively increase their loans or other investments, and concomitantly their deposit liabilities, by an amount which in Canada (where the minimum cash reserve ratio is 8 per cent) is approximately twelve times the increase in their cash reserves. Conversely, payment to the central bank for securities which it sells causes a reduction in the reserves of the reserve-system banks and (unless other factors are tending to increase reserves) makes it necessary for them progressively to sell securities or reduce other assets in order to restore their reserve ratios to the required level.

The change in the volume of bank deposits in the hands of the public, and the equivalent change in the loans and other assets of the chartered banks, are the chief results of open market operations by the central bank. These changes, in turn, have an influence — which is however only one amongst a variety of influences — on interest rates, on the level of bond prices, on the rate of spending or potential rate of spending by holders of bank deposits and by those who may desire to borrow funds from the holders of bank deposits, on the general state of liquidity of the economy as a whole, and on various expectations and intentions in people's minds regarding future economic trends, their own spending and saving, and the possibility of making profitable investments in new or expanded business operations.

These and the various other elements which determine the overall rate of economic activity and growth, are also affected by many other factors which separately or in combination may be much

* In some countries the central bank is also empowered to alter the required minimum reserve to be maintained by the commercial banks, and to give directives or make regulations respecting lending practices on the part of banks and other institutions. The Bank of Canada has not exercised the former of these powers and does not possess the latter. Another instrument of central bank policy, which may have more significance as an indicator than as an operative factor, is the changing from time to time of the rate of interest at which the central bank is prepared to make short-term loans to the commercial banks. In Canada the practice has been adopted of having changes in the central bank's minimum lending rate fluctuate with changes in the yield on 91-day treasury bills as established at the weekly auction of new issues to replace those maturing, which gives an up-to-date and sensitive indicator of changing conditions and outlook in financial markets.

more influential than monetary policy. Among the obvious factors concerned are fiscal policy (spending and taxation policies, particularly on the part of the national government but also on the part of junior governments); debt management policy of governments; other governmental action, regulations and legislation; the condition of foreign markets for Canadian exports; the rise or fall of world prices, and changes in costs of production in Canada and elsewhere; movements in exchange rates and in the balance of payments; changes in public habits regarding spending and saving; the technical ability, adaptability and mobility of employed and unemployed persons; scientific research, technological changes, natural resource discoveries and many others.

At the present time the central bank is the only agency in Canada which is charged by statute with the duty of conducting its operations in such a way as to promote price stability, rising employment and economic growth. This is unfortunately open to misconstruction, because it is certain that the central bank cannot accomplish such a result alone, and there is great danger in the misunderstanding which may be created that no matter what other sectors of the community may be doing, an appropriate monetary policy can by some magic prevent inflation and achieve the other objectives of economic policy. There are undoubtedly people who honestly hold entirely mistaken views about the power of a central bank to prevent inflation, and some who hold equally mistaken views on the presumed power of monetary management to bring about full employment and a high rate of economic growth.

In the interest of informed public discussion it is particularly important to realize that there is nothing the central bank can do to change credit conditions in one part of the country rather than another — it cannot make credit more abundant in those areas where inflationary pressures are least, or less abundant in those areas where inflationary pressures are greatest. To bring about an increase in the total quantity of money does not determine how or in what part of the country the persons who acquire the monetary resources will spend, save, lend or invest them. Likewise, to enable the chartered banks to increase their total loans and investments, does not determine how or in what part of the country any one or all

of the banks will expand loans or investments or, indeed, does not ensure that the banks individually or collectively will increase their total volume of loans and investments commensurately with the additional cash reserves which might make this possible, though normally they would achieve such an overall expansion by buying Government securities in the market if loan demand were slack.

Similarly, there is no way in which the central bank's operations can induce lenders to take a more favourable view of loans to small business as distinct from large enterprises, or to Canadian-owned enterprises as compared with foreign-owned enterprises operating in Canada, or to municipalities or governmental agencies as against private business, institutions and individuals.

It is undoubtedly the case that, particularly under conditions of strong demand, small businesses find it difficult to compete against larger businesses in the obtaining of additional supplies of capital (and in boom times, supplies of labour and raw materials), and also that Canadian-owned enterprises are under a disadvantage in competing against foreign-owned enterprises which have ready access to external sources of funds, foreign research facilities and technical assistance, as well as tied markets or assistance in marketing. These disadvantages do not flow from monetary policy and cannot be overcome by such general measures as monetary policy, or, for that matter, government spending designed to augment total personal income and consumer expenditure.

Similarly, when there are particular industries or particular regions with substantially more unemployment than the national average, or when seasonal conditions reduce certain kinds of employment, general economic measures cannot be expected to bring about any significant increase in employment in the particular industry, region or season in question. Monetary policy is, in its nature, of a general character. So is fiscal policy in the broad sense.

There are no doubt various special measures, whether financial or other, which governments can take to reduce the various disabilities and difficulties of small business and to mitigate the handicaps of Canadian enterprises in competing against foreign enterprises which operate through subsidiaries in Canada or send their

goods into Canada, and similarly to relieve the particular problems of production and development and employment in specific industries and particular parts of the country and in the winter season. The necessity for pin-pointing action to deal with these problems in good times as well as in recessions has tended to be overlooked, and the possible value of general measures such as monetary expansion and deficit spending have been seriously exaggerated in the public mind.

General measures such as monetary expansion and deficit spending if undertaken at the wrong time can undoubtedly stimulate inflation. They can do very little to cure unemployment not due to any deficiency of total demand in Canada, or to improve the competitive position of small business and Canadian-owned enterprises. Indeed, when general economic activity is relatively high, even though there may be serious particular problems of the kind indicated, general measures of monetary expansion and deficit spending may contribute more to an increase of imports, and therefore to an increase in production and employment outside Canada, than to an increase in production and employment inside Canada. A reduction in spending, an increase in saving, restraint in foreign borrowing, and the encouragement of structural changes in the Canadian economy to replace imports with efficient domestic production would do much more to deal with the specific problems concerned, than general expansionist measures of a monetary or fiscal character.

For some years, as I see it, the Canadian economy has been under the influence of excessive overall spending, which even in periods of relatively high unemployment resulted in a net inflow of imports from other countries. Attempts to induce growth for a short time at rates which in the aggregate cannot be expected to continue, bring set-backs and unemployment in their train. Such conditions of excessive demand create inflationary pressures which distort the structure of the economy and handicap the development of the more stable economic sectors. The attempt to accomplish too much too fast has given rise to huge deficits in our international balance of payments on current account, i.e. a very large excess of imports of goods and services over exports of goods and services, to a large and growing volume of foreign debt incurred by Canadian

governments and businesses which do not have foreign operations to support that debt, and has gone hand-in-hand with a growing degree of foreign predominance in Canadian business.

Three years ago when reviewing the development of the very large balance of payments deficit of 1956 I remarked that "An import surplus or balance of payments deficit of the present size is the product and symptom of an excessive rate of spending in the economy, not just of a reasonable rate of real growth. It would be disturbing to think of an import surplus of such magnitude continuing for an indefinite period". At that time I expressed the belief "That total spending of all kinds was at least \$1 billion greater than would have been desirable from the point of view of general stability and sound economic growth".

Three more years have gone by in which we have had very large balance of payments deficits, and we are now launched on another year with the prospective excess of total spending over production being greater than ever, presumably to be matched by an equivalent excess of imports which will have to be financed by foreign resources in one form or another.

The cumulative effect of all these developments must be to weaken the ability of the Canadian economy to meet the difficulties of the next recession to come upon us from abroad, and to make more likely the development of a domestic recession arising from excesses and structural strains within our own economy, which may or may not coincide in timing with recession conditions abroad.

In the interests of sound monetary policy, and of a sound economic structure, a basic element in our national life which it is the function of monetary policy to promote, it seems appropriate now at the beginning of a new decade, and in many ways of a new era in world economic development, to pause and ask ourselves if it would really be desirable to continue along the path indicated by the tendencies of recent years.

Even if we were intent on trying to continue in that way, it must be recognized that in a capital-hungry world we cannot in fact count on having ready access to foreign capital year after

year on a large scale. The longer the process of attempted over-expansion or over-rapid expansion goes on, the more maladjustments will be built into our economy, and the more difficult and painful will be the readjustments which will in time be forced upon us. We must in the end learn as a nation to live within our means, and exhibit the strength and will to do so. It would in my view be the path of realism to move firmly in that direction on a broad front without delay.

There is no reason in principle why Canada could not make great progress without drawing on the savings of foreigners on a huge scale to finance our capital expenditures or consumption. We could do so, just as most other countries in the Western world do, and as other countries with our degree of development and standard of living have done in the past. We can achieve, by our own efforts without foreign aid, a substantial increase every year in our productive capacity and standard of living. For the purpose of maintaining full employment, economic growth and a rising standard of living, we do not need to stimulate a temporarily high but unsustainable rate of consumer spending by means of more and more consumer credit, or of capital expenditures on a scale greater than our own capacity and willingness to save out of annual production for that purpose. We would benefit more from greater diversification of our production, which could provide a higher average level of employment and one less exposed to the hazard of sudden changes.

A more moderate approach to economic development on the part of all sections of the community, and more emphasis on a balanced industrial structure would also mean that Canadians would own a greater share in Canadian industry, that we would accumulate less debt to foreigners, and would have to bear a smaller burden of foreign debt service, which could one day become a very serious embarrassment in the event of a major decline in the exchange value of the Canadian dollar. We do not need to make our economy structurally dependent on our ability to obtain, or on other people's willingness to let us have, new supplies of foreign capital year after year on a vast and increasing scale.

Above all, I am concerned lest Canadians should fail to appreciate or close their eyes to the implications of certain economic tendencies, in the thought that there is in monetary management some magical power or hidden hand which will relieve us of the necessity of remedying our situation by our own exertions, by not consuming more than we produce, and by prudent management of our collective affairs. Monetary expansion, low interest rates, and abundant loans not based on actual domestic savings will not counteract such trends (but if adopted would make them worse) and will be able to make little if any contribution towards alleviating the problems of large and sudden adjustments which will be necessary some day if earlier action of the appropriate character is not taken to forestall them.

This is not pessimism, but realism. I think it equally realistic to have confidence that the Canadian people can and will manage their affairs as effectively as any other nation. With a high and rising standard of education, with a wide range of technical skills, with hard work and self-reliance, with above all pride in our national destiny as an independent progressive northern people living in a stimulating environment, we need only to be aware of our problems to tackle them, to cast aside easy-going illusions and stand on our own feet.

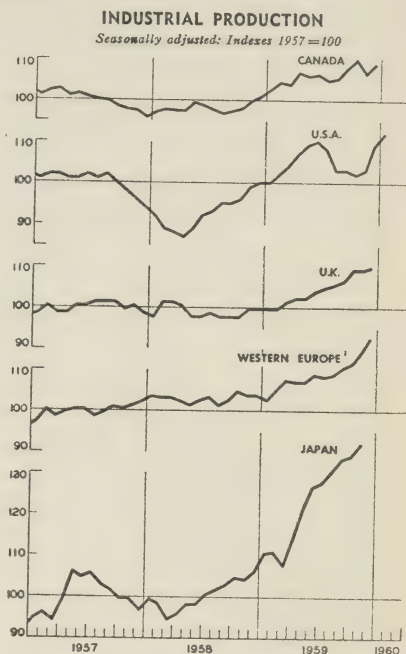
The adoption of sound and balanced programmes for future development, the avoidance of excess in spending and borrowing, and the promotion of a more stable and diversified structure of economic activity, have never been so essential to the continued growth and stability of the Canadian economy. I am sure that in this way we can indeed achieve a maximum of progress without inflation and consequent serious recessions, without aggravation of intractable unemployment situations, and without inviting foreign domination of our national life.

●

World Economic Environment

Expansion was the keynote of the world economy in 1959; not only in North America but in almost all of the overseas industrialized countries as well, the year was marked by pronounced increases in output and employment. Indication of these trends are provided in the inset chart showing for a number of countries the growth of industrial production which accounts for one-third to one-half of gross national product. In the industrialized countries, a renewed upward trend has developed in capital expenditure on new plant and equipment following the earlier strength in consumer spending, and in recent months the possibilities of overstrain and instability have led a number of such countries to take steps, in most cases of a monetary nature, to moderate the expansion of spending plans. Meanwhile the expansion of industrial activity caused an increase in the demand for primary commodities, with resulting price increases in some cases. Improved export earnings from many primary products, together with continued foreign aid, quickened the pace of economic development in most of the less developed parts of the world.

By the middle of 1959 the value of world trade was considerably above the previous year's level and it is now probably higher than before the recession. In the last quarter of 1959 exports from Japan, Germany, France, the Netherlands and Switzerland were all more than 15 per cent higher than a year before; exports from a number of other European countries were running at rates 10 per cent higher. Exports of the primary producing countries as a group were 10 per cent above year-before levels in the third



1. Austria, Belgium, Denmark, France, Germany(F.R.), Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Sweden, Turkey.

quarter of 1959, the last for which comprehensive data is available. Exports from the United States were considerably above the previous year's levels in the fourth quarter of 1959, though in the year as a whole they were no higher than in 1958.

On the import side, United States purchases abroad turned up in 1958 and for 1959 as a whole rose by \$2.4 billion, or nearly 20 per cent above the previous year. Imports into other industrial countries taken as a group did not rise as markedly for 1959 as a whole, but they have been rising sharply in recent months. In the third quarter of 1959, as export incomes improved and import restrictions were eased, the imports of primary producing countries, taken as a group, rose above year-ago levels for the first time since early 1958.

In last year's Report I referred to the progress made during the past decade towards international financial balance which was reflected in an increase of \$8.5 billion in the gold reserves and of \$10 billion in the dollar holdings of countries other than the United States (excluding the Sino-Soviet group) in the ten years 1949-1958. This progress continued in 1959, when other countries gained approximately \$3.7 billion in gold and dollars in their transactions with the United States. (This excludes the \$1.4 billion which the United States paid to the International Monetary Fund in connection with the increase in its Fund quota.) In addition, new gold production in the western world and Russian gold sales added perhaps another \$1 billion to the official reserves of countries other than the United States.

Although the United States payments deficit was somewhat higher in 1959 than in 1958, gold losses were considerably less, largely because the firming of short-term interest rates increased the relative attractiveness, to the countries gaining reserves, of holding short-term U.S. government securities. Nevertheless the magnitude of the deficits—\$3.4 billion in 1958 and an estimated \$3.7 billion in 1959—has focused the attention of the United States authorities on the problems that would be involved if such trends were prolonged. The lines of policy which have been followed so far with a view to reducing the deficit have not imposed burdens on other countries. United States policy has not sought to restrict the flow of imports for balance of payments reasons, nor to cut the total flow of foreign aid. Rather it has sought to increase exports—

by improving competitiveness and strengthening sales efforts, and by pressing for the removal of foreign import restrictions — and to persuade other countries financially able to do so to look after a larger share of the increased foreign aid requirements of under-developed countries.

For Canadians, it is worth pondering that even a country of the enormous economic strength of the United States, accounting as it does for well over a third of the total production of the Free World and still holding nearly \$20 billion in gold — almost half the world's gold reserves—as well as huge foreign assets, can find itself in a position where it must give thought to its balance of payments and to the impact of its domestic economic policies on its international position.

In referring to the improved international financial position of Western Europe in my last Report, I pointed out that there was no longer any justification for maintaining discriminatory import restrictions, and expressed the hope that arrangements for regional economic cooperation in Europe would not interfere with a rapid dismantling of existing controls against dollar goods. Substantial progress in reducing discrimination was made in 1959 by a number of countries, and though a good deal remains to be done the remaining discriminations are widely recognized as the vestigial remains of an earlier period which are no longer appropriate or defensible in present conditions.

This does not mean, however, that all will be clear sailing in the future. The problem of regional groupings remains unresolved. The establishment in 1957 of the European Economic Community, or “common market”—a customs union comprising France, Germany, Belgium, Luxembourg, Netherlands and Italy — was followed by the formation in 1959 of another group called the European Free Trade Area and consisting of the United Kingdom, Austria, Denmark, Norway, Portugal, Sweden and Switzerland. The former group, the “common market” countries, are in process of determining the level of their common tariff and the nature of their common agricultural policy, which are matters of vital concern to Canada and other trading countries. Europe is a large and growing market for Canadian goods, and we have a great interest in

maintaining access to this market on reasonable terms. An important step looking towards a constructive solution of the difficult problems involved in the relationship of the two regional European groups with other countries was taken early in 1960 when arrangements were made for the Western European countries and the United States and Canada to have joint discussions of outstanding problems of trade policy and to consider new institutional arrangements for continuous consultation on economic matters.

Whatever turn the trading policies of the European regional groupings may ultimately take, there are certain basic factors which will affect Canada's trading position in the years ahead. The great economic recovery of Europe and the development of raw material resources in various parts of the world have resulted during the past few years in a remarkable increase in the competitiveness of international trade. During the 1950's Canada enjoyed a combination of advantages in its external position. There were long accrued demands for our staple exports, particularly of minerals, when other sources of supply were inadequate, which also made attractive the development of new sources in Canada. In addition our special locational advantage as a source of supply, notably of strategic materials to the United States market, was emphasized by the extreme tensions of the early cold war period. These advantages have diminished during the past two or three years. The short-fall in the world supply of most of the commodities which make up our staple exports has been overcome by the development of increased capacity in a number of other countries as well as Canada; changes in strategic military concepts have altered the role of various raw materials.

In a number of important respects therefore, it seems likely that Canadian exports will be less assisted by specially favourable conditions than in the recent past and will have to depend more on ability to meet stiff competition in a world in which alternative sources of supply are now readily available. Even on the assumption of favourable developments in the trading policies of European and other countries, merely passive reliance on presumed natural advantages cannot be expected to improve or indeed even to maintain our position in world trade.

The Canadian Balance of International Payments

After a decade or more in which distortions and restrictions left by the war have been diminishing and in which trading conditions and opportunities have been developing in a direction generally favourable to the most competitive producers, it may be useful to review in some perspective the recent trends in Canada's trade and payments position. These are shown in the table and charts on the following page.

The outstanding feature of Canada's balance of international payments in recent years has been the size of our deficits on current account. Over the past four years the total of such deficits has been \$5,335 million, with the figure for 1959 at \$1,460 million, a new record high. During this period it was possible for deficits of such a size to be financed without adverse effects on our exchange reserves or a fall in the exchange rate because foreigners took advantage of opportunities, or were induced by Canadian governments and other borrowers, to provide large amounts of capital and loans to the Canadian economy; indeed the capital inflow was so large as to maintain the external value of the Canadian dollar at a high level.

The very large over-all current deficits of recent years have arisen both because merchandise imports have exceeded merchandise exports, and because payments for services and foreign debt charges have increased continuously and now greatly exceed receipts of the same nature. Such payments cover a wide range of business and personal transactions—freight and shipping, travel, business payments for advertising, insurance, administrative charges and research, patents, etc., also defence and other Government services and personal remittances—as well as transfers of interest, dividends and profits. Transactions of this kind, together with gold production available for export and transactions having the characteristics of gifts, are usually referred to as transactions on non-merchandise account, or “invisible” exports and imports. The recorded excesses of payments over receipts on non-merchandise account, details of which are shown in the table on page 17, have risen steadily during the nineteen-fifties to a level of \$1,074 million in 1959. These are balance of payments figures and do not include retained (i.e. unremitted) profits accruing to non-residents from

Balance of Payments Trends: 1948-1959

Balance of Payments on Current Account

(millions of dollars)

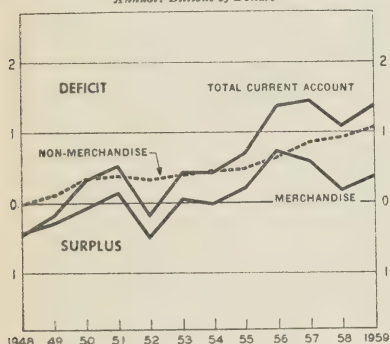
	Merchandise Trade			Non-Merchandise Transactions (net)	Current Account Balance	Physical Volume Indexes 1948 = 100	
	Exports (1)	Imports (1)	Balance			Merchandise Exports (2)	Merchandise Imports (2)
1948	3,030	2,598	432	19	451	100.0	100.0
1949	2,989	2,696	293	-116	177	94.2	102.0
1950	3,139	3,129	10	-344	-334	93.6	109.2
1951	3,950	4,097	-147	-370	-517	103.5	122.7
1952	4,339	3,850	489	-325	164	114.9	138.0
1953	4,152	4,210	-58	-385	-443	113.2	151.0
1954	3,929	3,916	13	-445	-432	109.6	141.0
1955	4,332	4,543	-211	-487	-698	118.3	160.3
1956	4,837	5,565	-728	-638	-1,366	128.3	190.0
1957	4,909	5,488	-579	-845	-1,424	129.8	182.5
1958	4,890	5,060	-170	-915	-1,085	130.5	168.3
1959*	5,152	5,538	-386	-1,074	-1,460	134.1	187.2**

Source: Dominion Bureau of Statistics.

(1) Adjusted to balance of payments basis. (2) Not adjusted to balance of payments basis. Export series excludes exports of foreign produce. * Preliminary. ** Estimated.

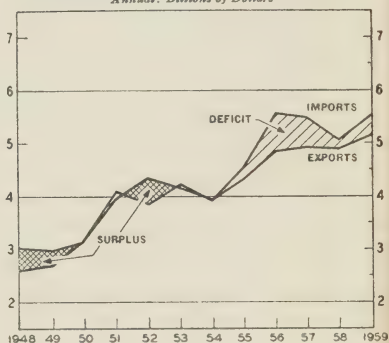
BALANCE OF PAYMENTS ON CURRENT ACCOUNT

Annual: Billions of Dollars



MERCHANDISE EXPORTS AND IMPORTS

Annual: Billions of Dollars



Commodity Terms of Trade

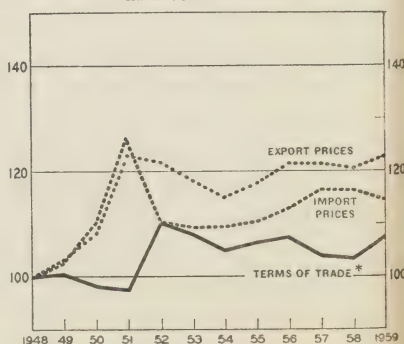
Price Indexes, 1948 = 100

	Exports	Imports	Terms of Trade
1948	100.0	100.0	100.0
1949	103.3	102.6	100.7
1950	108.3	110.3	98.2
1951	123.0	126.2	97.5
1952	121.8	110.4	110.3
1953	118.3	109.4	108.1
1954	115.1	109.5	105.1
1955	117.7	110.5	106.5
1956	121.4	113.0	107.4
1957	121.3	116.4	104.2
1958	120.6	116.5	103.5
1959	123.0*	114.5**	107.4**

Source: Dominion Bureau of Statistics.
* Preliminary. ** Estimated.

COMMODITY TERMS OF TRADE*

Annual: Indexes 1948 = 100



* Export price index divided by import price index.

Non-Merchandise Transactions in the Balance of International Payments on Current Account

(millions of dollars)

	Gold Production Available for Export	Freight and Shipping (net)	Travel (net)	Interest and Dividends (net)	Other Non- Merchandise Items (net)	Total Non- Merchandise Deficit (-)	Estimated Annual Unremitted Profits on Foreign Direct Investment in Canada <i>(millions of dollars)</i>
1948	119	57	145	-255	-47	+19	160
1949	139	50	92	-307	-90	-116	155
1950	163	-17	49	-384	-155	-344	155
1951	150	-3	-6	-335	-176	-370	200
1952	150	8	-66	-268	-149	-325	290
1953	144	-56	-63	-239	-171	-385	340
1954	155	-43	-84	-276	-197	-445	300
1955	155	-17	-121	-323	-181	-487	370
1956	150	-45	-161	-381	-201	-638	480
1957	147	-70	-162	-433	-327	-845	450
1958	160	-59	-193	-420	-403	-915	n.a.
1959*	147	-95	-192	-486	-448	-1,074	n.a.

Source: Dominion Bureau of Statistics.

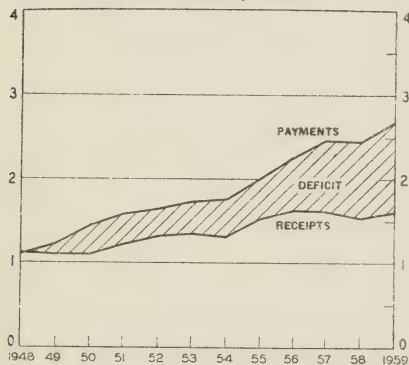
* Preliminary.

Canadian business operations, the bulk of which are shown in the last column of the table.

The widening non-merchandise deficit reflected a much greater rise in payments than in receipts; from 1950 to 1959 non-merchandise payments rose by 85 per cent while receipts rose by 45 per cent. Within the totals a growing deficit was recorded in almost all the components. Through the period the largest change, that in the travel account, was due to a continuing rapid increase in Canadian travel expenditures outside Canada. The travel account swung into deficit early in the 1950's as foreign exchange

NON-MERCHANDISE TRANSACTIONS

Annual: Billions of Dollars



control limitations on Canadian travel expenditures were removed, and the annual deficit has since grown to nearly \$200 million. With the growth of overseas travel the Canadian travel deficit with overseas countries has been rising as rapidly as that with the United States. There has also been a large increase during the period in

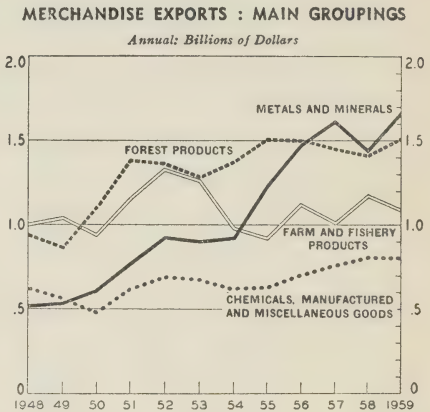
the deficit on interest and dividends. The decline in net interest and dividend payments from 1950 to 1953 coincided with equally large increases in the unremitted portion of annual profits accruing to non-residents from direct investment in Canada; since 1953 annual net interest and dividend payments have doubled, reaching \$486 million in 1959, and retained profits have also been greater. Taken together, the changes in interest, dividend and travel components account for about 45 per cent of the growth since the early 1950's in the non-merchandise deficit. The remainder was made up of larger deficits in the international exchange of freight and shipping services, business services, government services and official contributions, and a variety of personal remittances.

The record of recent years points up clearly the fact that the total volume of spending in Canada, and the nature and direction of our spending, have given rise to a persistent upward tendency in the non-merchandise deficit, which is now very large and growing larger. The over-all current account might however have been kept in balance if there were a substantial and growing surplus from trade in goods. So far no such surplus has emerged. On the contrary, Canada has had a very considerable deficit on merchandise account in recent years.

As shown in the table and charts on page 16, the large merchandise surplus of 1948 had been virtually eliminated by 1950 due to a 9 per cent rise in the physical volume of imports (reflecting in part the progressive removal of import restrictions imposed in 1947 under the Emergency Exchange Conservation Act) and to some decline in the volume of exports as overseas countries tightened their restrictions on dollar imports. In 1951 and 1952 the volume of imports increased by about the same amount as the volume of exports. However in 1952, the terms of trade, i.e. the ratio of export prices to import prices, changed markedly in Canada's favour with the sharp decline in import prices which followed the end of the Korean war boom. The net result of all these factors was a surplus on merchandise trade of \$489 million in 1952, the last year to show a surplus of any consequence. It was replaced by a merchandise deficit of \$58 million in 1953 as the volume of imports again rose substantially, while export volume was down, and the terms of trade moved slightly against us. The merchandise

deficit reached a peak of \$728 million in 1956 and amounted to \$386 million in 1959. The terms of trade were approximately the same in 1959 as in 1953, with average export prices 4 per cent and average import prices 4½ per cent higher, so that the weakening of our trade balance arose not from movements in the relationship of export and import prices but from an increase in the physical volume of our imports which was much greater than the growth in the physical volume of our exports.

The total value of Canadian merchandise exports fell by 5 per cent from 1953 to 1954, rose by nearly 25 per cent to 1956, remained steady in total during 1957 and 1958, and began to rise again in 1959. Movements in the four main groupings of merchandise exports are shown in the accompanying chart. Most of the increase in total exports in this period was in exports of metals and minerals, mainly to the United States. The changes from 1953 to 1959 in the main items within this group are as follows:



Exports in			
	1953	1959	Change
	(millions of dollars)		
Uranium	10*	312	+302*
Iron ore	31	158	+127
Petroleum and products	7	97	+ 90
Nickel	163	227	+ 64
Primary iron and steel	88	129	+ 41
Aluminum and products	178	232	+ 54
Copper and products	125	166	+ 41
Lead and zinc and products	96	81	- 15
All other metals and minerals	206	255	+ 49
	904	1,657	+753

* Approximate

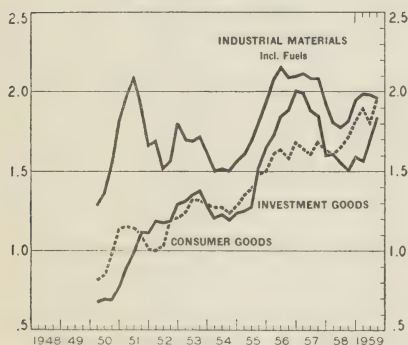
Within the forest product group, newsprint exports rose by \$104 million over the period and total exports of lumber and all other forest products were up by \$124 million. Exports of grains and flour were unusually high in 1953 (though down somewhat from 1952) and their subsequent fall was partly offset by some growth in exports of other farm and fishery products. In the remaining category there was an increase over the period in exports of a variety of chemicals and of alcoholic beverages and a sharp drop in overseas shipments of automobiles and trucks.

In the last two or three years exports of some commodities have not risen as much as capacity, and there is some potential for growth of such exports in future from existing facilities if prices, costs and market conditions are favorable.

Merchandise imports have shown a stronger upward trend than exports, and have also been much more sensitive to the swings in the business cycle. Reflecting changes in the level of Canadian economic activity, imports rose in 1953, fell in 1954, rose sharply in 1955 and early 1956, declined in 1957 and 1958 and then rose again in 1959. The fluctuations have been most pronounced in imports of industrial materials (including fuels) and investment

MERCHANDISE IMPORTS BY END USE*

*Seasonally Adjusted at Annual Rates
Quarterly: Billions of Dollars*



* Figures for 1948 and 1949 are not available.

goods (machinery and structural components). Imports of consumer goods rose less sharply than the other two main categories of imports during periods of strong economic expansion but they also fell less, or not at all, when total economic activity slackened, and over the period since 1953 this is the category which has shown the greatest expansion.

To sum up, there has been a large and persistently rising deficit on non-merchandise current transactions, and instead of achieving

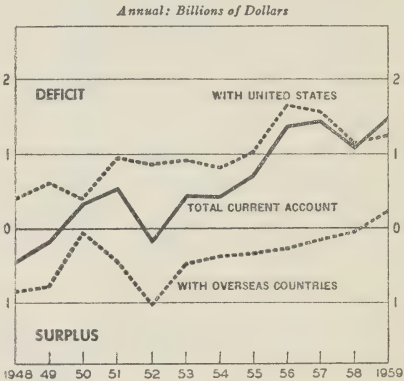
a surplus on merchandise trade which would have offset this at least in part, we have developed a persistent merchandise deficit as well. There has therefore been a large increase in the over-all deficit on current account which in 1959 reached the record level of \$1,460 million.

Along with the large increase in the over-all current deficit there has been a shift in the regional pattern. For many years it was taken as axiomatic that

Canada would have a substantial current account surplus with overseas countries which would balance in whole or in large part the long-standing deficit with the United States. Before the war current receipts from overseas countries exceeded payments on the average by more than a third. In 1953 the net surplus with overseas countries was \$461 million; it declined every

year through 1958, and in 1959 there was a current account deficit with overseas countries. The explanation does not lie solely with merchandise trends, for income on rising investments in Canada by overseas countries and growing tourist expenditures by Canadians overseas and other invisible payments have played a part, but in relation to these overseas countries it is the increase in commodity imports relative to exports which has been the dominant factor. Since 1953 Canadian exports to overseas countries have increased by \$266 million with lower shipments of farm products partly offsetting increases in other exports, while Canadian imports from overseas have increased by \$664 million. Imports from the United States fell sharply in the 1957/58 recession and have still not fully reached their earlier level, but imports from overseas sources did not decline and have now risen to new record levels. In 1959 they made up 33 per cent of Canadian imports compared with 28 per cent in 1953.

BALANCE OF PAYMENTS ON CURRENT ACCOUNT
WITH THE UNITED STATES AND OVERSEAS
COUNTRIES



Current Account Balance of Payments by Regions

(millions of dollars)

	Merchandise Balance With			Non-Merchandise Balance With			Total Balance With		
	U.S.A.	Over- seas Coun- tries	All Coun- tries	U.S.A.	Over- seas Coun- tries	All Coun- tries	U.S.A.	Over- seas Coun- tries	All Coun- tries
1948	-289	+721	+432	-104	+123	+19	-393	+844	+451
1949	-378	+671	+293	-223	+107	-116	-601	+778	+177
1950	-47	+57	+10	-353	+9	-344	-400	+66	-334
1951	-516	+369	-147	-435	+65	-370	-951	+434	-517
1952	-471	+960	+489	-378	+53	-325	-849	+1,013	+164
1953	-588	+530	-58	-316	-69	-385	-904	+461	-443
1954	-445	+458	+13	-362	-83	-445	-807	+375	-432
1955	-685	+474	-211	-350	-137	-487	-1,035	+337	-698
1956	-1,167	+439	-728	-472	-166	-638	-1,639	+273	-1,366
1957	-947	+368	-579	-621	-224	-845	-1,568	+144	-1,424
1958	-528	+358	-170	-606	-309	-915	-1,134	+49	-1,085
1959*	-518	+132	-386	-718	-356	-1,074	-1,236	-224	-1,460

Merchandise Trade⁽¹⁾ by Regions

(millions of dollars)

	With the United States			With Overseas Countries		
	Exports	Imports	Net Imports	Exports	Imports	Net Exports
1948	1,508	1,797	-289	1,522	801	+721
1949	1,521	1,899	-378	1,468	797	+671
1950	2,046	2,093	-47	1,093	1,036	+57
1951	2,326	2,842	-516	1,624	1,255	+369
1952	2,346	2,817	-471	1,993	1,033	+960
1953	2,458	3,046	-588	1,694	1,164	+530
1954	2,355	2,800	-445	1,574	1,116	+458
1955	2,598	3,283	-685	1,734	1,260	+474
1956	2,854	4,021	-1,167	1,983	1,544	+439
1957	2,931	3,878	-947	1,978	1,610	+368
1958	2,909	3,437	-528	1,981	1,623	+358
1959*	3,192	3,710	-518	1,960	1,828	+132

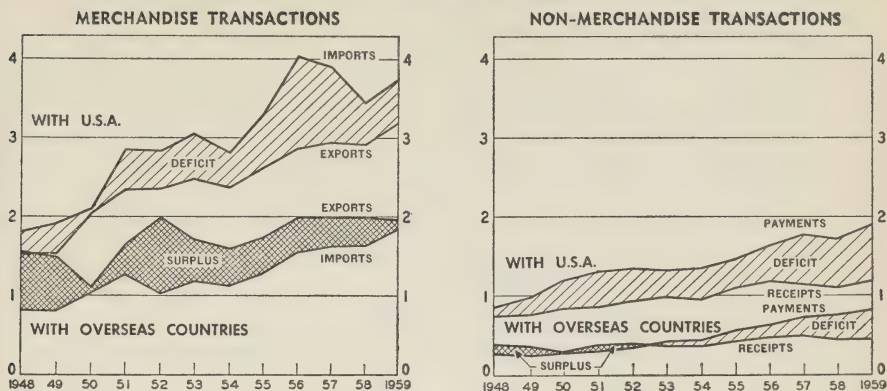
Source: Dominion Bureau of Statistics.

(1) Adjusted to balance of payments basis.

* Preliminary.

CURRENT ACCOUNT WITH THE UNITED STATES AND OVERSEAS COUNTRIES

Annual: Billions of Dollars



The experience of sharply rising imports from overseas countries is not unique to Canada; it has also been an important factor in the balance of payments of the United States during the past few years. The success of overseas exporters in the North American market cannot be attributed to any single factor but one of the most important has undoubtedly been the maturing of the post-war recovery of these countries and their success in reducing the internal pressures of excess demand, thereby releasing goods for export. Goods have become available more promptly and in larger quantities, and they have been vigorously marketed. In addition, an important part seems to have been played by the high standards of quality, style and design which have been incorporated in many of the products of the overseas countries, and by the diversification of tastes on this continent. The restoration of overseas manufacturing countries to something more closely approaching their position of a couple of generations ago has undoubtedly caused important changes in Canadian trade.

Canada's over-all current account deficits have been financed by net international receipts on capital account without any significant changes in official holdings of gold and foreign exchange. One of the main elements in capital receipts, foreign direct investment, has ranged between \$400 million and \$600 million per annum since 1953, and in 1953 and 1954 was almost large enough by itself to cover the current account deficit. The increase in the deficit in

Balance of International Payments on Capital Account

(millions of dollars)

	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
Foreign direct investment in Canada ⁽¹⁾ . . .	+71	+94	+222	+309
Canadian direct investment abroad ⁽¹⁾ . . .	+15	+13	+36	-20
Net sales of new issues of Canadian securities ⁽²⁾				
Government of Canada (incl. guaranteed) . . .				
Provincial (incl. guaranteed)		not available		
Municipal (incl. guaranteed)				
Corporate bonds				
Corporate stocks				
Sub-total	<u>+36</u>	<u>-42</u>	<u>-74</u>	<u>+227</u>
Other transactions in bonds and stocks	-5	+28	+405	+53
All other items ⁽²⁾	<u>-568</u>	<u>-270</u>	<u>-255</u>	<u>-52</u>
Over-all capital receipts (+) or payments (-) =				
total financing of current account	<u><u>-451</u></u>	<u><u>-177</u></u>	<u><u>+334</u></u>	<u><u>+517</u></u>

Source: Dominion Bureau of Statistics.

(1) Exclusive of retained (i.e. unremitted) earnings.

(2) Newly-issued Canadian securities sold to non-residents at time of issue, mainly payable in foreign currency but including also those payable in Canadian dollars, less retirements of foreign-held issues.

recent years has, in effect, been financed mainly by a large increase in net sales to non-residents of Canadian-debtor securities, most of them payable in foreign currencies. Net sales to non-residents of new issues of Canadian securities in the last four years averaged \$538 million per year, and the international trade in outstanding securities also showed a substantial net sale by Canadian investors to non-residents. These capital movements have provided most of the financing of the current account deficit but changes in short-term assets and liabilities, including appreciable changes in commercial accounts receivable and payable, have also been a factor in some periods.

<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959*</u>
+346	+426	+392	+417	+583	+514	+420	+500
-77	-63	-81	-74	-104	-68	-48	-60
-17	-78	-61	-95	-74	-13	+51	-44
+69	+115	+63	-16	+209	+111	+123	+279
+29	+61	+17	+25	+94	+99	+118	+121
+124	+51	+98	+11	+232	+432	+200	+54
+22	+40	+11	+57	+65	+36	+27	+30
<u>+227</u>	<u>+189</u>	<u>+128</u>	<u>-18</u>	<u>+526</u>	<u>+665</u>	<u>+519</u>	<u>+440</u>
-102	-31	+39	-33	+201	+98	+91	+187
-558	-78	-46	+406	+160	+215	+103	+393
<u>-164</u>	<u>+443</u>	<u>+432</u>	<u>+698</u>	<u>+1,366</u>	<u>+1,424</u>	<u>+1,085</u>	<u>+1,460</u>

(3) Includes changes in commercial accounts receivable and payable, changes in business loans, drawings and repayments of Government of Canada loans to foreign governments, changes in Canadian dollar holdings of non-residents, changes in official exchange holdings, changes in private Canadian holdings of foreign currencies and Canadian subscriptions to international institutions.

* Preliminary.

Current account deficits and the capital movements by which they are financed involve corresponding increases in international indebtedness. In addition, our net foreign debt has risen by reason of unremitted earnings left in Canada or reinvested in Canadian operations by foreign-controlled firms, which are reflected in the book value of foreign investment in Canada although they do not enter the published statistics on the balance of payments. From 1953 to 1959 inclusive the amounts of unremitted earnings averaged over \$300 million per year and were about \$2.5 billion in total. Other technical factors, mostly having to do with the valuation of assets, also affect the reconciliation between the sum of current account

Balance of International Indebtedness⁽¹⁾

(Billions of dollars)

At Dec. 31	Foreign Direct Investment in Canada	Other Canadian Liabilities to Foreigners	Total	Government Loans and Subscriptions (2)	Canadian Official Exchange Holdings (3)	Other Canadian External Assets	Total	Net Canadian International Indebtedness
1948	3.3	5.5	8.8	2.3	1.0	1.6	4.9	3.9
1949	3.6	5.7	9.3	2.4	1.2	1.9	5.5	3.8
1950	4.0	6.5	10.5	2.4	1.9	1.9	6.2	4.3
1951	4.5	6.8	11.3	2.3	1.8	2.2	6.3	5.0
1952	5.2	6.7	11.9	2.3	1.8	2.6	6.7	5.1
1953	6.0	6.9	12.9	2.2	1.8	2.9	6.9	6.0
1954	6.8	7.3	14.1	2.1	1.9	3.2	7.2	6.8
1955	7.7	7.6	15.3	2.0	1.9	3.5	7.4	7.9
1956	8.9	8.8	17.7	2.0	1.9	3.8	7.7	10.0
1957	10.1	9.8	19.9	1.9	1.8	4.4	8.1	11.9
1958	11.0	10.7	21.7	1.9	1.9	4.4	8.2	13.5
1959*	11.9	12.1	24.0	2.1	1.8	4.7	8.6	15.4

Source: Dominion Bureau of Statistics.

(1) Including short-term indebtedness relating to commercial accounts receivable and payable.

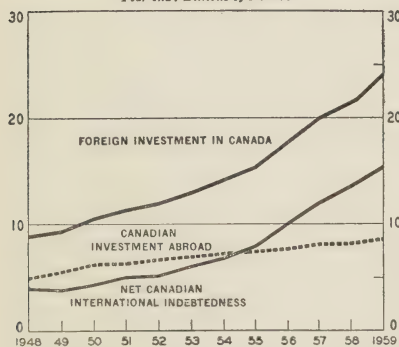
(2) Government of Canada loans outstanding to foreign countries and subscriptions to the International Monetary Fund, the International Bank for Reconstruction and Development, and the International Finance Corporation.

(3) Canadian dollar equivalent.

* Preliminary.

THE CANADIAN BALANCE OF INTERNATIONAL INDEBTEDNESS*

Year-end: Billions of Dollars



* For composition of items in the chart see table above.

deficits and the increase in net international indebtedness.

Thus over the seven years 1953 to 1959 inclusive, when Canada's current account deficits totalled \$6.9 billion, our net international indebtedness rose by \$10.3 billion. At the end of 1959 it was \$15.4 billion, having nearly doubled over the last four years and having tripled over the last seven years.

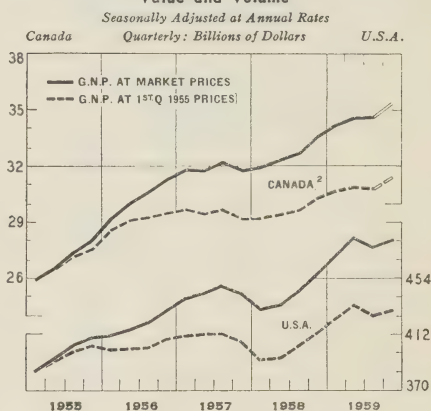
Economic Developments

In both Canada and the United States the recovery which began in 1958 developed into a broadly based expansion in 1959. For the year as a whole the total output of goods and services in the United States increased by 9 per cent in value and by 7 per cent in physical volume from the previous year. In Canada, where the recession had been less marked than in the United States, the increase was 7 per cent in value and 5 per cent in physical volume. The rising trend of total output in both countries was impeded during much of the second half of the year by the direct and indirect effects of prolonged industrial disputes, but the demand for the affected products which was unsatisfied during this period was reinforcing the underlying expansive trend at the year-end. In both countries the increase in employment exceeded the growth in the labour force, and the decline in the level of unemployment, seasonally adjusted, which began in the spring of 1958 continued in 1959.

Through most of 1958 and the early months of 1959 the swing from inventory liquidation to inventory accumulation provided a strong stimulus to output. After the first quarter, inventories ceased to be an important influence in Canada, whereas in the United States inventory investment moved first higher and then sharply lower under the impact of the steel strike. In both countries, however, the net result of these trends was an unusually low ratio of manufacturers' inventories to sales at the year-end.

Consumer spending in Canada, which had been one of the important sustaining and expansionary influences in 1958, continued to grow in 1959 and for the year as a whole was up by 6 per cent; the increase was 11 per cent in the case of purchases of new auto-

GROSS NATIONAL PRODUCT - CANADA AND U.S.A.¹
Value and Volume

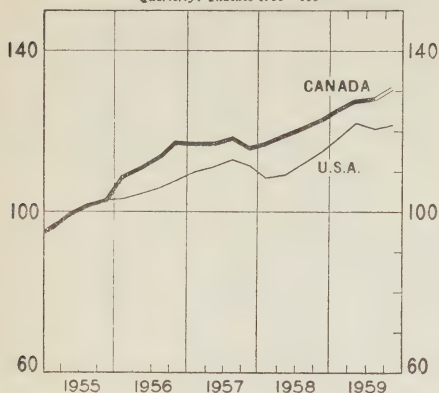


1. Scales are in the ratio of 1:14, the average ratio of Canadian to U.S. G.N.P. in 1955-59.

2. The Canadian series excludes changes in farm inventories and commercial grain stocks. The constant price series for Canada is an unpublished estimate.

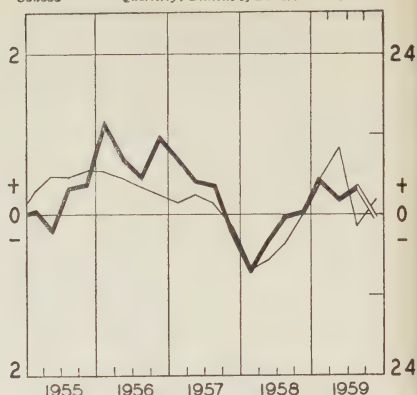
GROSS NATIONAL PRODUCT

Quarterly: Indexes 1955=100



CHANGE IN BUSINESS INVENTORIES¹

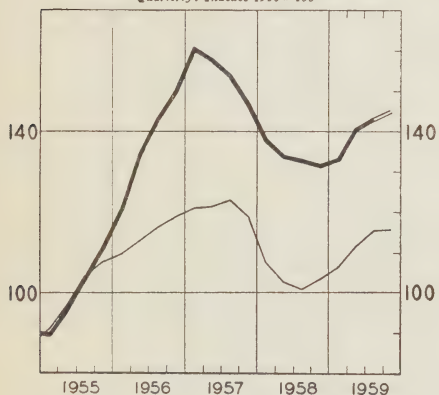
Canada Quarterly: Billions of Dollars U.S.A.



1. Excludes change in farm inventories. The scales are in the ratio of the stock of inventories in the two countries.

BUSINESS FIXED CAPITAL INVESTMENT¹

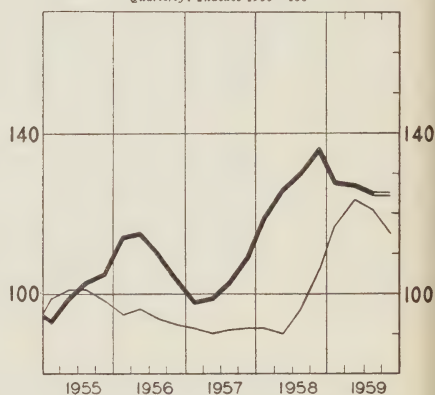
Quarterly: Indexes 1955=100



1. Expenditures on non-residential construction, machinery and equipment.

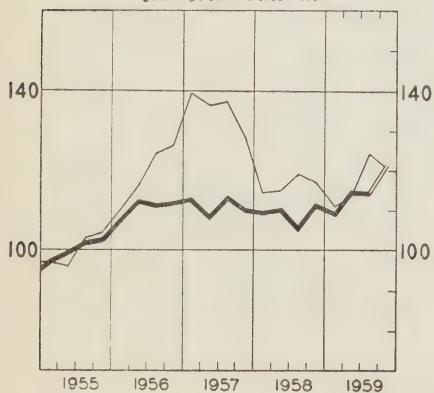
EXPENDITURE ON NEW HOUSING

Quarterly: Indexes 1955=100



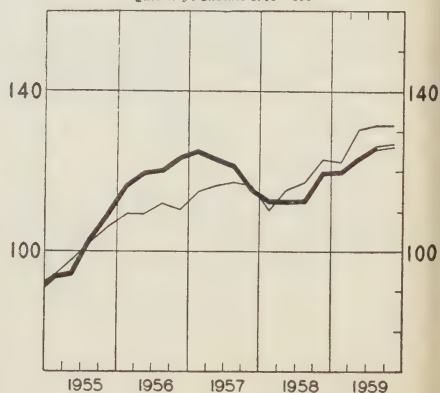
EXPORTS OF GOODS AND SERVICES

Quarterly: Indexes 1955=100



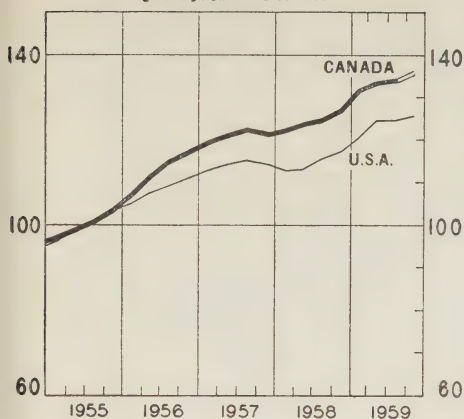
IMPORTS OF GOODS AND SERVICES

Quarterly: Indexes 1955=100



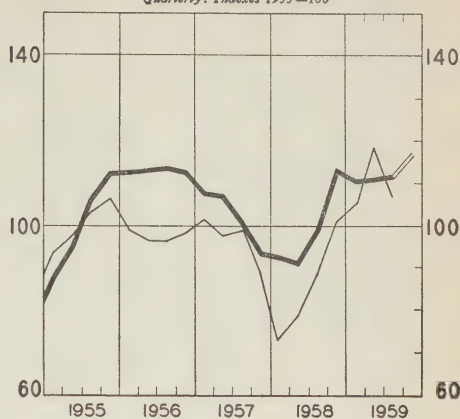
LABOUR INCOME

Quarterly: Indexes 1955=100



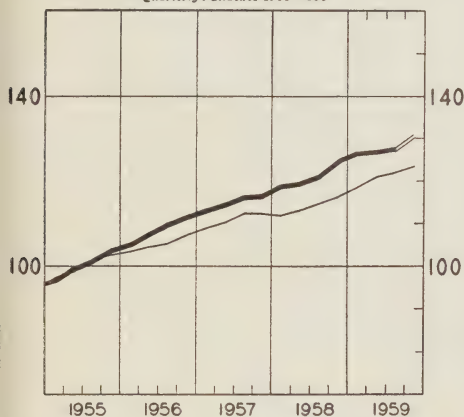
CORPORATE PROFITS

Quarterly: Indexes 1955=100



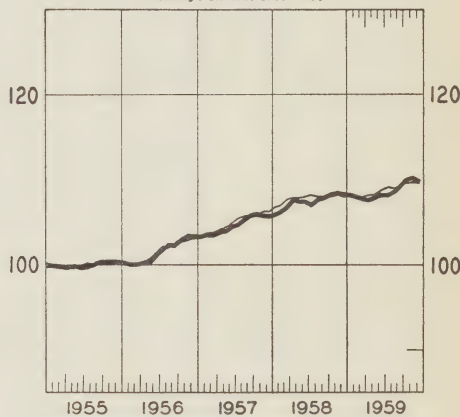
CONSUMER EXPENDITURE ON GOODS & SERVICES

Quarterly: Indexes 1955=100



CONSUMER PRICE INDEX¹

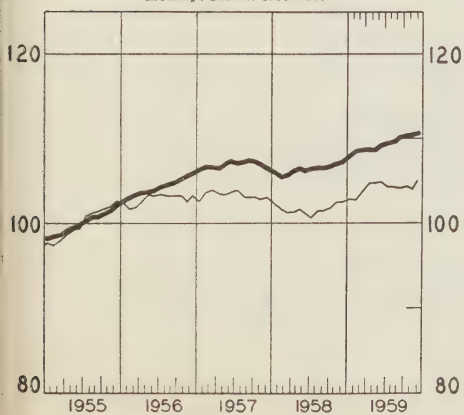
Monthly: Indexes 1955=100



1. Not adjusted for seasonal variation.

EMPLOYMENT¹

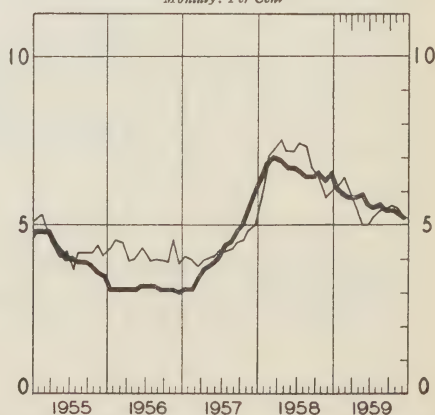
Monthly: Indexes 1955=100



1. Persons with jobs.

UNEMPLOYMENT¹ AS A PERCENTAGE OF LABOUR FORCE

Monthly: Per Cent



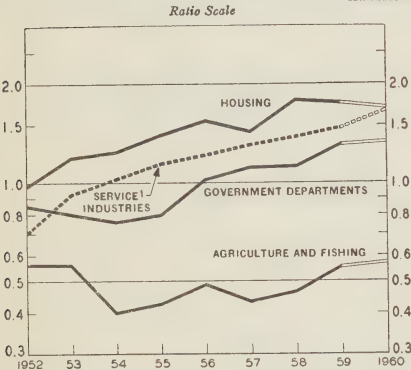
1. Labour force seasonally adjusted less persons with jobs seasonally adjusted.

mobiles. Despite a rise in personal tax payments, income after taxes increased a little more than consumer spending and the rate of net personal saving in 1959 was higher than in 1958. Consumers also borrowed on a substantial scale in 1959: consumer debt outstanding rose more than in any year since 1955.

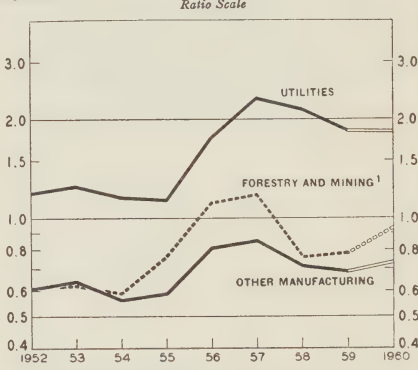
After falling through most of 1958 the trend of business capital outlays rose during 1959. With sales and profits sharply higher in 1959 for most industries, surveys of investment intentions for 1960 in both Canada and the United States indicate a continuation of the upward trend in gross new investment in plant and equipment.

GROSS FIXED INVESTMENT CLASSIFIED BY SECTOR

Annual: Billions of Dollars



1. Trade, finance, commercial and institutional services, and the construction industry.



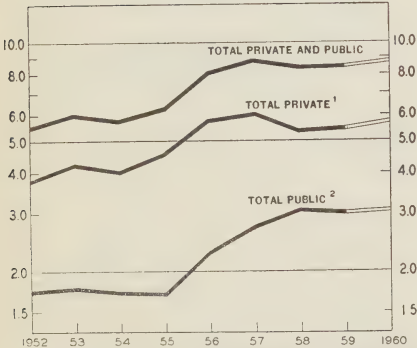
1. Including manufacturing of forest and metal products.

GROSS FIXED INVESTMENT CLASSIFIED BETWEEN PRIVATE AND PUBLIC

Annual: Billions of Dollars

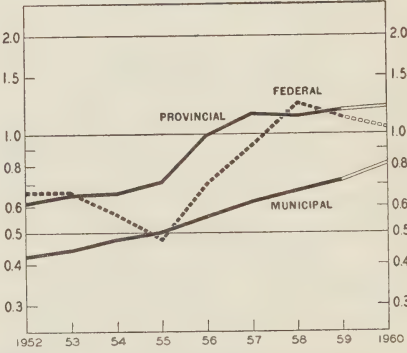
PRIVATE AND PUBLIC

Ratio Scale



PUBLIC³

Ratio Scale



1. Capital outlays by private enterprises and on privately financed housing.

2. Capital outlays by government departments, institutions and enterprises including public housing and C.M.H.C. financing of N.H.A. mortgages.

In Canada in 1959 the total of private and public capital outlays on fixed investment is estimated at \$8,411 million as compared with \$8,364 million in 1958. Capital expenditures by utilities were down substantially, reflecting the completion of the St. Lawrence Seaway and the Trans-Canada gas pipeline. There was little change in capital outlays by manufacturing concerns, but a substantial increase occurred in agriculture. Capital outlays were also higher in the service industries, which have represented a growing proportion of total economic activity in recent years. Capital expenditures by government departments increased sharply but the total amount of fixed investment financed by governments or under government guarantee was lower than in 1958.

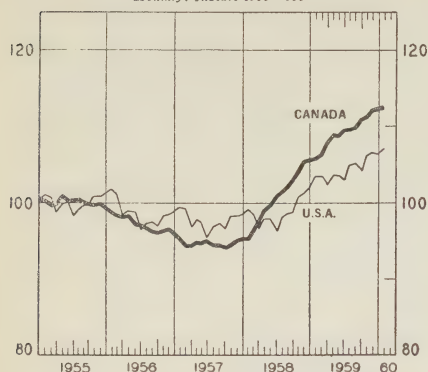
Investment intentions for 1960 as recorded in the latter part of 1959 indicate that there will be a considerable further increase in capital outlays on industrial machinery and equipment, and this is confirmed by the continued strength of new orders placed with Canadian producers of such goods. Plans for non-residential construction are also appreciably higher in 1960, and residential construction is the only major category of investment for which a decrease is indicated. Capital expenditures financed by governments or under government guarantee are expected to increase slightly.

The total of expenditures by federal, provincial and municipal governments for all purposes continued to rise during the year though at a slower rate than in 1958. Total government revenues were buoyant, rising more rapidly than expenditures, so that the over-all deficit of all governments was appreciably reduced from the very high level reached in 1958. Nearly all of the reduction in the deficit occurred in the case of the federal government. The combined deficit of all provinces and municipalities appears to have changed relatively little from the previous year with improvements in the position of some governments being offset by increased deficits in the case of others.

The expansion of economic activity brought an increased yield from direct and indirect taxes, which in the case of the federal government was reinforced by increases in the rates of personal

**OUTSTANDING DEBT¹ OF NATIONAL
GOVERNMENT AND ITS AGENCIES:
CANADA AND THE UNITED STATES**

Monthly: Indexes 1955=100

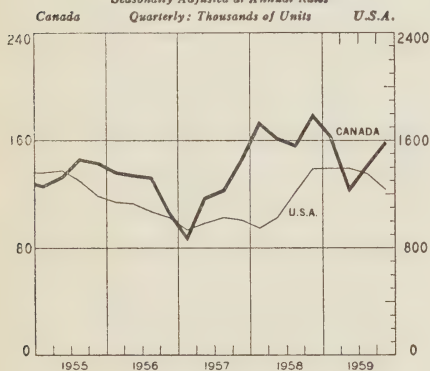


1. Total debt of Government (including Government agencies) held outside Government accounts less Government bank balances.

Expenditure on housing construction in 1959 was little changed from the previous year's total though it was somewhat below the exceptionally high rate reached in the latter part of 1958. The

HOUSING STARTS

*Seasonally Adjusted at Annual Rates
Quarterly: Thousands of Units*



and corporate income taxes and the general sales tax in the April budget. Defence expenditure and unemployment insurance payments were lower, and the scale of Government-financed residential mortgage lending, and of other Government advances for special purposes was smaller. The increase in the Government's outstanding debt was again substantial, but only about two-thirds as great as in 1958.

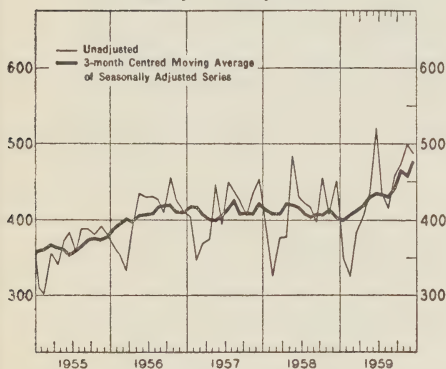
The number of housing units completed in 1959 all but equalled the previous year's record of 147,000. The number of units started was down from 165,000 to 141,000, the whole of the reduction being accounted for by starts financed under the National Housing Act. The maximum rate of interest on N.H.A. mortgages was increased in December from 6 to 6½ per cent.

Total Canadian merchandise exports began to rise early in 1959. By mid-year they were well above the level which had been fairly steadily maintained from 1956 through 1958, and after a pause in the summer the upward movement was resumed. The upswing in the first half of 1959 was the result of increased shipments to the

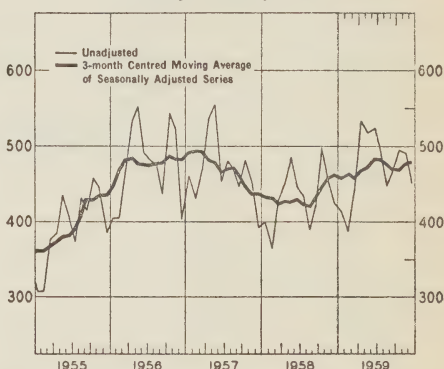
United States. After mid-year, exports of industrial materials to countries other than the United States rose sharply, reflecting the strength of the economic recovery overseas, and in the fall months renewed growth developed in exports to the United States. Total exports for the year were 5 per cent above 1958.

The composition of our exports in 1959 was somewhat different from that of 1958 and more like the pattern of earlier years, as some of the exports which had shown unusual strength in 1958, notably military aircraft and cattle, declined substantially. These declines were more than offset by increases in a broad range of metals and minerals, wood and paper products, chemicals and farm machinery. The increases in the main reflected a rising physical volume of trade, although higher prices were recorded for a number of export commodities, notably lumber, copper, zinc and aluminum.

MERCHANDISE EXPORTS
Monthly: Millions of Dollars



MERCHANDISE IMPORTS
Monthly: Millions of Dollars



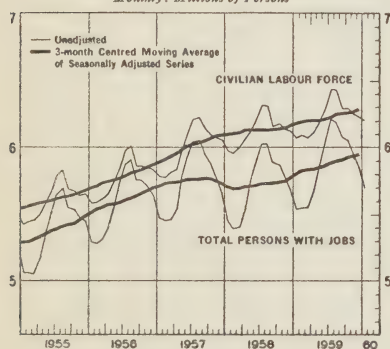
Merchandise imports rose somewhat irregularly during 1959, advancing in the first half, then easing off, and finally moving up again at year-end, as shown in the chart above. For the year as a whole, merchandise imports were 9 per cent higher than the previous year with a wide range of commodities contributing to the increase, including all three of the major categories: industrial materials entered Canada in larger volume to meet the demands of a higher level of industrial activity; the rising requirements for machinery and equipment led to higher orders placed with foreign as well as domestic suppliers; and imports of consumer goods, particularly of automobiles from overseas countries, continued to increase.

Including non-merchandise transactions, the total of all imports of goods and services rose about 9 per cent in 1959, while exports of goods and services rose about 5 per cent. The net current deficit in the Canadian balance of international payments increased by one-third, widening from \$1,085 million in 1958 to \$1,460 million in 1959. Most of the increase in the deficit occurred in the balance on merchandise trade but the net deficit on non-merchandise transactions also rose, reaching a record level of \$1,074 million.

Employment in Canada expanded through 1959; the average number of persons with jobs was 2.7 per cent greater than in 1958. Expansion in non-farm employment more than offset a decline in farm employment which was somewhat less than in recent years. The increase of 1.6 per cent in the labour force was appreciably less than in recent years, partly because immigration was lower and partly because the proportion of the population of working age in the labour force did not follow the rising trend of previous years. The consequence of these developments was a decline in the number of persons without jobs and seeking work, which averaged 5.6 per cent of the labour force in 1959 compared with 6.6 per cent in 1958; in December 1959 the figure was 5.2 per cent on a seasonally adjusted basis.

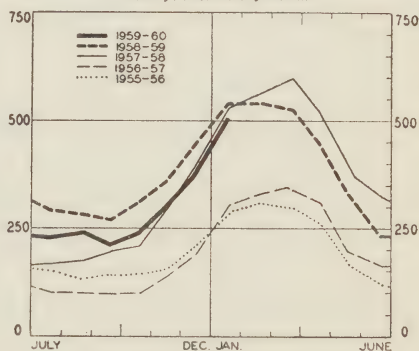
LABOUR FORCE AND EMPLOYMENT

Monthly: Millions of Persons



PERSONS WITHOUT JOBS AND SEEKING WORK

Monthly: Thousands of Persons

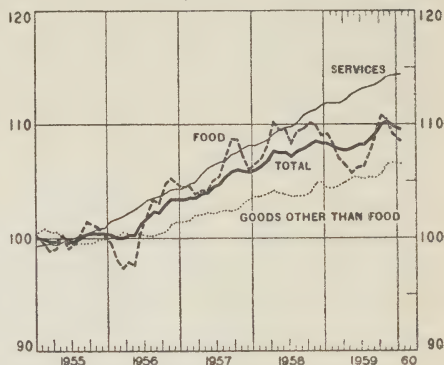


The consumer price index at the beginning of 1960 was 1 per cent higher than a year before. Food prices fell in the spring of 1959 but rose again in the autumn and ended the year about $\frac{1}{2}$ per

cent lower than at the beginning. Other consumer prices rose on balance by 2 per cent over the year with about one-third of this increase being accounted for by higher rates of sales tax and excise tax on many non-food commodities; the price of services also continued to increase. Construction costs and machinery prices moved upwards again in 1959. In aggregate, the increase in the price of all goods and services entering into final use appears to have been approximately 2 per cent.

CONSUMER PRICE INDEX

Monthly: Index 1955 = 100



While this increase was less than in some other recent years, notably 1956 and 1957, it took place during a period when primary commodity prices were relatively stable, the exchange value of the Canadian dollar increased (with a consequent restraining influence on domestic price increases) and the economic expansion was at a stage when productivity normally rises rapidly and upward pressures on costs are at a minimum.

Monetary and Financial Developments

Against a background of economic expansion, and some concern among investors about the possibilities of future inflation, conditions in financial markets tightened during 1959 and interest rates rose substantially. These changes in the financial environment exerted some restraining influence on the growth of spending plans, by providing greater incentives to save, and to trim or postpone expenditure projects which were under consideration.

At the beginning of 1959 the chartered banks had been in a very liquid position as a result of the substantial monetary expansion which had taken place between July 1957 and October 1958. During 1959 the Bank of Canada maintained the cash reserves of the chartered banks on a broadly stable basis and total chartered bank deposits and assets remained approximately constant.

Financial markets and institutions experienced a strong demand for funds. The Government's borrowing requirements, which had

dominated the financial scene in 1958, were at a somewhat reduced but still very high level in 1959, and private demands for credit, particularly bank credit, increased rapidly in the first eight months of the year. The chartered banks financed the large increase in their loans chiefly by the sale of Government bonds. The pressure of rising private demand for bank credit was thus transmitted to the securities market, which was required to absorb an unprecedented volume of Government securities as a result of the combination of selling by the Government and the chartered banks. The increase in interest rates which took place made it more expensive to raise money in financial markets, whether by new borrowing or through the sale of existing investments, but also correspondingly increased the rate of return available to savers with money to lend or invest. In the event, the general public added the extraordinary amount of \$1,750 million to its holdings of Government securities during 1959.

After mid-August bank loans levelled off and then declined. Chartered bank sales of Government securities were reduced and then ceased. At the same time the prolonged steel strike in the United States lowered the pressure in North American financial markets generally, in somewhat the same way that a very mild and short recession would have done. Up to mid-summer the rising trend of bond yields was in sharp contrast with the downward movement of stock yields, but in the latter part of the year there were signs of lessened enthusiasm for stocks, of growing confidence in bond markets, and of some easing of demands on the chartered banks.

To give the monetary and banking story in more detail, it will be recalled that at the beginning of October 1958 the total of currency outside banks and chartered bank deposits had increased by about 16 per cent over a period of fourteen months. Monetary expansion during this period had not only increased the amount of money in the hands of the public but had also greatly enlarged the chartered banks' holdings of Government securities and consequently their capacity for future loan expansion financed through the sale or redemption of these securities. Total lines of credit authorized by the chartered banks increased strongly during the recession phase of early 1958 and also during the recovery phase in that year.

By the fourth quarter of 1958 the volume of chartered bank loans outstanding had also begun to rise on a seasonally adjusted basis, and amounts outstanding increased strongly through the first half of 1959, accompanied by further rapid growth of authorized credit lines. Most of the increase in bank loans appears to have financed higher levels of business inventories and receivables and consumer credit. By mid-August 1959 total chartered bank loans outstanding had increased some \$1,200 million, or 23 per cent, above the level of a year previously.

By April the banks were becoming concerned about the rate of growth in their loans. On May 14 following a series of meetings the President of the Canadian Bankers' Association issued a public statement saying that the banks intended to exercise the utmost care in the handling of their credit facilities, in order to avoid any significant further increase in the over-all total of bank loans, and that within these limitations, a special attempt would be made to look after the essential credit needs of small borrowers.

At the annual meeting of the Canadian Bankers' Association on June 12, 1959, the President in his published address re-affirmed the statement of May 14.

Nevertheless, the banks experienced great difficulty in bringing their loans under control and the total of amounts utilized under loan authorizations continued to rise sharply until mid-August. Total bank loans then levelled off, and have declined more than seasonally since mid-September. In the latter part of the year the banks increased their short-term investments and other liquid assets by a smaller amount than the reduction in their loans so that total chartered bank assets declined on balance. The cash reserves of the banks as a group remained appreciably above the required 8 per cent through the last four months of 1959. At the year-end the banks were in a position to facilitate a moderate degree of expansion in the total volume of their commercial loans or other assets on a prudent and selective basis, when needed, particularly in relation to customers unable to obtain necessary financing from other sources.

The upward push on interest rate levels also came to a head in late summer. At that time yields on treasury bills and short-term

Government bonds had risen above 6 per cent. In subsequent weeks, however, the treasury bill tender rate moved below 6 per cent again, and from about mid-September through to the end of November there was a general decline in market yields on Government securities, with the tone of the market firmer than it had been for many months. A number of factors contributed to this improvement in market conditions. With the chartered banks bringing the increase in their loans to a halt, and indeed with the movement being reversed, pressure on the market from bank liquidation of Government securities came to an end. The rate of borrowing by way of new issues of securities also slackened considerably in the second half of the year. The set-back in the United States and Canadian stock markets in late summer, followed by the success of the optionally-convertible 5½ per cent Government bonds issued in Canada at the beginning of October, and of the "Magic Fives" Government bond issue in the United States, seemed to mark a distinctly more favourable turn in investor attitudes toward Government securities. This was reinforced by the firmness of the United States bond market during the early autumn and the great success of the annual Canada Savings Bond campaign. Although interest rates moved up in the United States from late October to late December, and in Canada during December, the year-end level in Canada was in general no higher, and in some cases substantially lower, than in late summer.

Bank of Canada Operations. Through the final quarter of 1958 and the whole of 1959, the total cash reserves of the chartered banks remained comparatively stable on a monthly average basis, fluctuating within a narrow range around a level of about \$1 billion, and the cash reserve ratio averaged about 8.2 per cent. During the period of rapid expansion of chartered bank loans in the spring and early summer, there was a gradual upward drift in total deposits which tended to raise the level of required reserves somewhat, and the average cash ratio was as low as 8.1 per cent in some months. After bank loans turned downward in September, total bank deposits also tended to decline, minimum reserve requirements fell, and the monthly average cash ratio was nearly 8.3 per cent in the last four months of the year.

Cash Reserve Position of the Chartered Banks

<u>Annual Averages</u>	<u>Gross Deposits⁽¹⁾</u> (\$ millions)	<u>Minimum Cash Reserve Requirement⁽²⁾</u> (\$ millions)	<u>Monthly Average Cash Reserves</u> (\$ millions)	<u>Monthly Average Cash Reserve Ratio⁽³⁾</u> (per cent)
1957	10,601	848	870	8.21
1958	11,452	916	943	8.23
1959	12,187	975	999	8.20
Monthly				
1957—Jan.	10,660	853	878	8.23
Feb.	10,525	842	865	8.22
Mar.	10,371	830	848	8.18
Apr.	10,489	839	856	8.17
May	10,528	842	863	8.20
June	10,694	856	877	8.20
July	10,647	852	864	8.12
Aug.	10,668	853	880	8.25
Sept.	10,543	843	875	8.30
Oct.	10,590	847	877	8.28
Nov.	10,763	861	878	8.16
Dec.	10,736	859	879	8.18
1958—Jan.	10,853	868	889	8.20
Feb.	11,006	880	897	8.15
Mar.	10,903	872	887	8.14
Apr.	10,892	871	902	8.28
May	10,927	874	888	8.13
June	11,333	907	933	8.23
July	11,370	910	954	8.39
Aug.	11,676	934	971	8.32
Sept.	11,939	955	996	8.34
Oct.	12,069	965	984	8.16
Nov.	12,257	981	1,005	8.20
Dec.	12,194	976	1,013	8.30
1959—Jan.	12,254	980	1,008	8.23
Feb.	12,320	986	998	8.10
Mar.	12,102	968	983	8.12
Apr.	12,162	973	991	8.14
May	12,238	979	1,002	8.20
June	12,265	981	1,003	8.18
July	12,250	980	991	8.09
Aug.	12,389	991	1,017	8.21
Sept.	12,197	976	1,009	8.28
Oct.	12,053	964	1,001	8.31
Nov.	12,023	962	995	8.27
Dec.	11,994	960	990	8.25

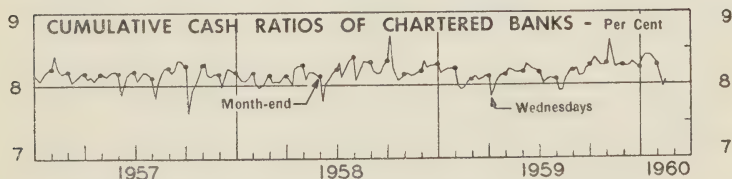
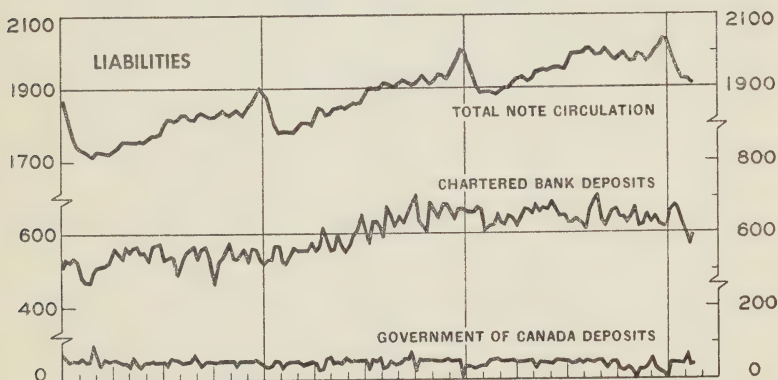
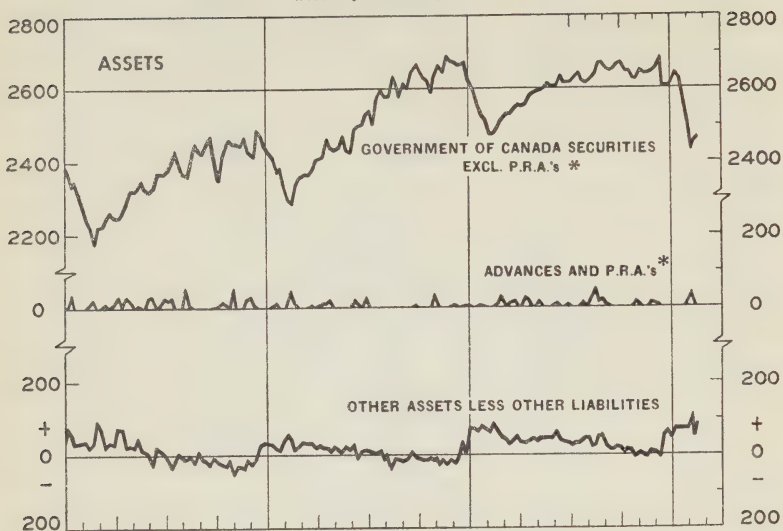
(1) Statutory basis, i.e. average Canadian dollar deposit liabilities before deduction of float for four consecutive Wednesdays ending with the second last Wednesday of the previous month.

(2) 8 per cent of gross deposits as shown in first column.

(3) Third column as percentage of first column.

BANK OF CANADA ACCOUNTS

Wednesdays: Millions of Dollars



* Securities purchased from money market dealers under resale agreements.

Bank of Canada Holdings of Government of Canada Direct and Guaranteed Securities

(millions of dollars—amortized value)

	As at Dec. 31 1959	Increase or Decrease (-) during:				
		1959				Year 1959
		1Q	2Q	3Q	4Q	
Treasury bills	306	125	90	46	9	270
Other market issues:						
2 years and under	515	-154	71	95	257	269
Over 2 and up to 5 years	61	-31	-133	-27	-300	-491
Over 5 and up to 10 years	425	-11	15	-33	-9	-38
Over 10 years	1,315	-1	26	-29	-7	-12
Total	2,621	-71	68	53	-51	-1

Changes in the total Government security holdings of the Bank of Canada during most of 1959 broadly offset the effect on cash reserves of changes in Bank of Canada notes outstanding. During the latter part of December, there was a substantial reduction in the Bank's portfolio of securities which coincided with the annual transfer of the Bank's net earnings to the Receiver General of Canada in the amount of \$74 million. The Bank's holdings of Government securities at the end of 1959 were virtually unchanged in total from the level of a year before. Bond holdings were reduced and treasury bills increased by \$270 million, and within the bond portfolio an amount of some \$386 million changed from longer to shorter term classifications during the year.

In 1959 advances to banks were outstanding on 53 days as against 40 days in 1958; the maximum amount outstanding on any one day in 1959 was \$20 million and the daily average for the year was \$2 million. The Bank of Canada held securities purchased from money market dealers under resale agreements on 64 days during the year as compared with 50 days in the previous year; the maximum amount outstanding on any one day was \$52 million and the daily average for the year was \$3 million. The minimum rate at which the Bank makes advances and provides funds to money market dealers through purchase and resale agreements was maintained at a level of $\frac{1}{4}$ of 1 per cent above the average rate of

treasury bills at the most recent weekly tender. It was 3.74 per cent at the beginning of the year, reached a high of 6.41 per cent in mid-August, and stood at 5.37 per cent at the close of the year.

Chartered Banks. Total chartered bank assets showed no significant change over the year 1959 as a whole. Within a roughly stationary total, the banks accommodated a very substantial increase in loans and insured mortgages by greatly decreasing their holdings of Government of Canada bonds, drawing on their net foreign assets and making appreciable reductions in their holdings of provincial and corporate securities.

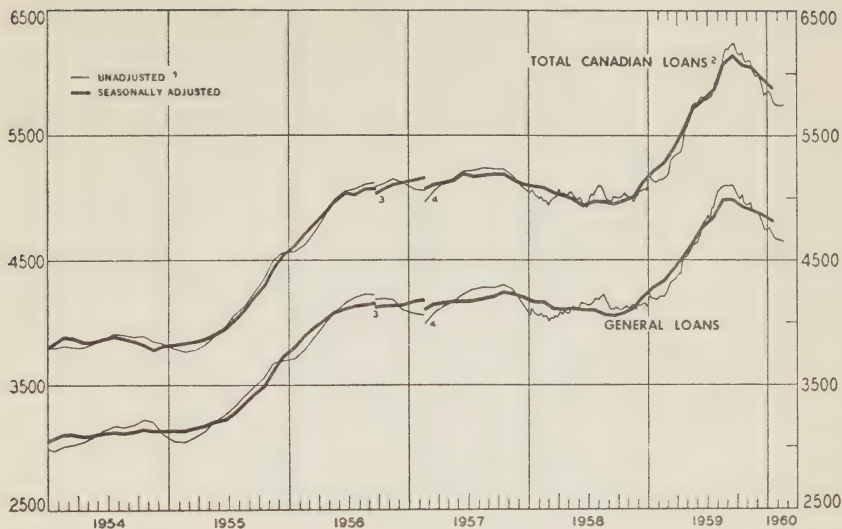
Total chartered bank loans began to increase on a seasonally adjusted basis in the autumn of 1958, at about the same time that the large 1957-58 expansion in total currency and bank deposits came to an end. Bank loans normally decline toward the end of the year, but in October and November of 1958 they remained about level and then increased in December. Between Oct. 1, 1958 and Aug. 19, 1959, when bank loans levelled off, they increased by \$1,211 million or by 24 per cent and the combined amount of Canadian loans, insured mortgages and non-Government securities increased by \$1,442 million. The total of this group of assets on Aug. 19 was \$8,402 million, or nearly 68 per cent of deposits (calculated on the statutory basis) compared with 58 per cent on Oct. 1, 1958.

Over this ten and one-half month period, total chartered bank assets rose by \$182 million. The great increase in loans, mortgages and non-Government securities was for the most part matched by declines in the more liquid assets of the banks. Government bond holdings declined by \$916 million, bringing the ratio of such bonds to deposits down from nearly 24 per cent on Oct. 1, 1958 to 16 per cent on Aug. 19, 1959. In addition treasury bill holdings declined by \$208 million, day-to-day loans by \$80 million, and net foreign assets by \$114 million.

From mid-August to the end of the year, movements in chartered bank assets followed a different pattern. Loans levelled off and then declined. Between Aug. 19 and Dec. 31 total Canadian loans decreased by \$213 million, or by \$365 million if loans for the purchase of Canada Savings Bonds are excluded. This decrease in late

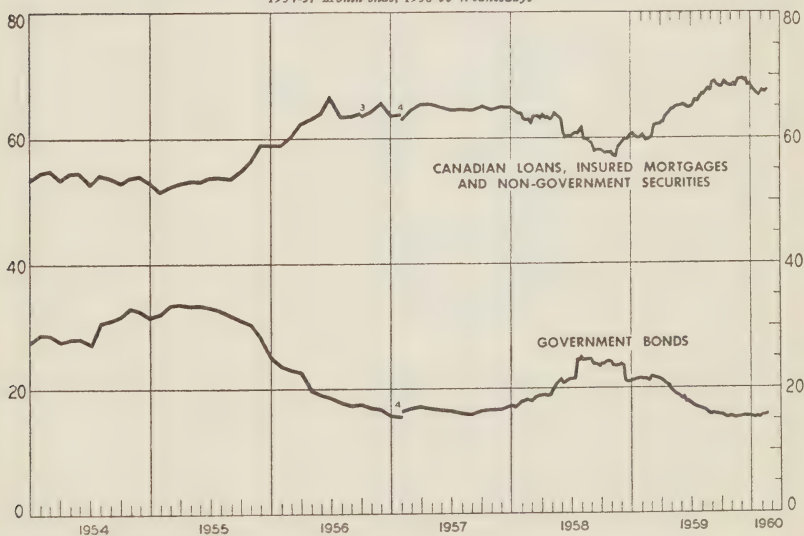
CHARTERED BANK LOANS

Monthly Averages of Wednesday Figures: Millions of Dollars



CHARTERED BANKS CERTAIN ASSETS AS A PERCENTAGE OF DEPOSITS⁵

1954-57 Month-ends; 1958-60 Wednesdays



1. Plotted weekly 1958-60.

2. Excluding call loans and loans for the purchase of Canada Savings Bonds.

3. Breaks reflect exclusion of certain foreign currency loans previously included in these series.

4. Breaks reflect reallocation of inner reserves consequent upon securities revaluation.

5. Gross deposits, calculated on the statutory basis from July 1954.

Chartered Banks: Assets and Deposit Liabilities

(millions of dollars)

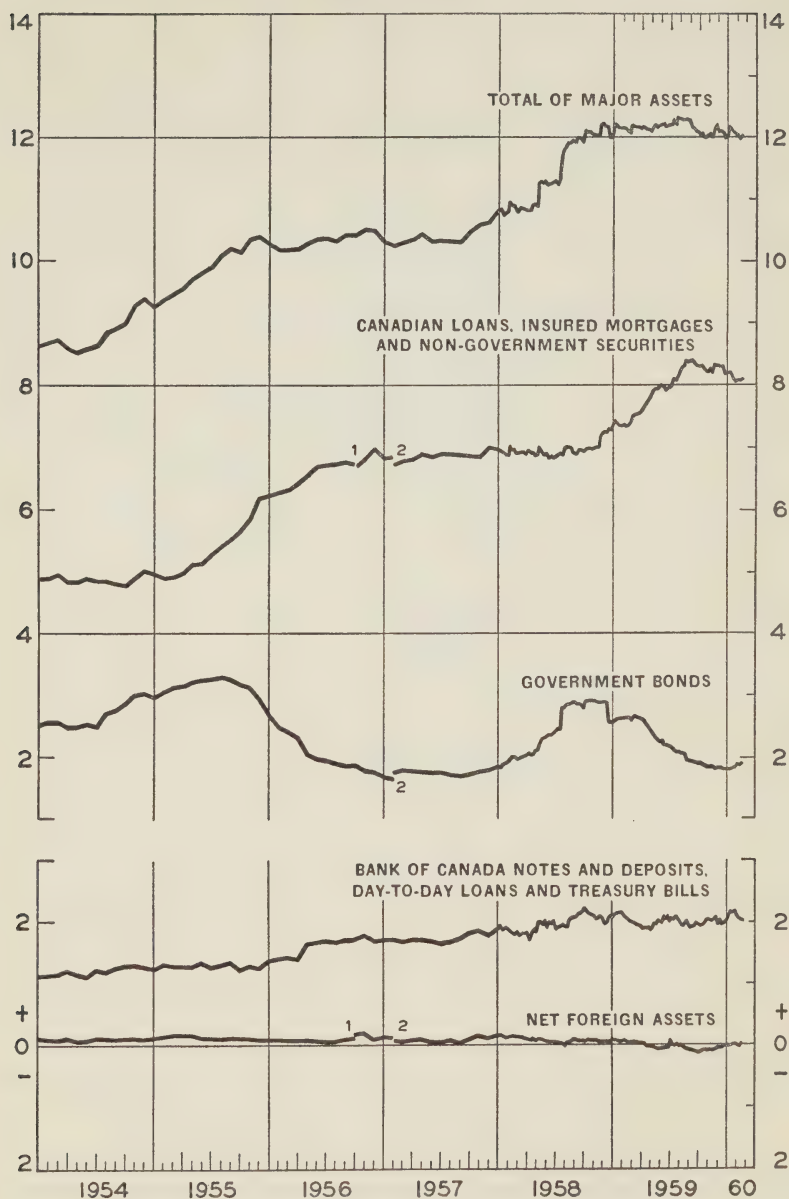
		Increase or decrease (-) during:				
	As at Dec. 31/59	July 31/57 to Oct. 1/58	Oct. 1/58 to Aug. 19/59	Aug. 19/59 to Dec. 31/59	July 31/57 to Dec. 31/59	Year 1959
Assets						
Bank of Canada notes and deposits	953	206	58	-106	157	-48
Day-to-day loans	101	34	-80	67	21	-22
Treasury bills	974	303	-208	90	179	24
Government bonds	1,827	1,184	-916	-146	122	-735
Net foreign assets	21	-11	-114	79	-46	-68
Sub-total.	3,875	1,716	-1,260	-17	434	-849
Call loans	139	-62	9	21	-32	23
Loans to provinces	39	14	-10	11	16	-30
Loans to municipalities	231	40	-18	19	41	14
Grain loans.	434	-60	99	-27	11	83
Canada Savings Bond loans	188	-27	16	151	140	18
Loans to finance companies	409	-52	124	14	86	57
General loans	4,701	-137	992	-403	452	564
Insured mortgages	968	204	185	70	459	178
Provincial securities.	346	102	19	-51	71	-69
Municipal securities.	204	18	25	-6	37	9
Corporate securities.	512	32	2	-31	2	-42
Sub-total.	8,172	72	1,442	-230	1,284	807
Total of foregoing assets	12,047	1,788	182	-247	1,718	-42
Deposit Liabilities						
Personal savings deposits	6,900	823 ⁽¹⁾	287	-313	797 ⁽¹⁾	56
Government deposits	404	-118	362	13	256	84
Other deposits (less float)	4,057	1,026 ⁽¹⁾	-588	54	492 ⁽¹⁾	-246
Total deposits (less float)	11,360	1,730	61	-247	1,545	-105

(1) Figures adjusted to eliminate effect of reclassification at Sept. 30, 1957 of certain deposits from "Personal savings deposits" to "Other deposits".

CHARTERED BANK ASSETS

1954-1957, Month-ends; 1958-1960, Wednesdays

Billions of Dollars



1. Breaks reflect transfer of certain loans from Canadian loans to net foreign assets.
2. Breaks reflect reallocation of inner reserves consequent upon securities revaluation.

1959 was greater than the normal seasonal decline. Insured mortgages showed a further increase of \$70 million over this period while holdings of non-Government securities, chiefly provincial and corporate issues, declined by \$88 million.

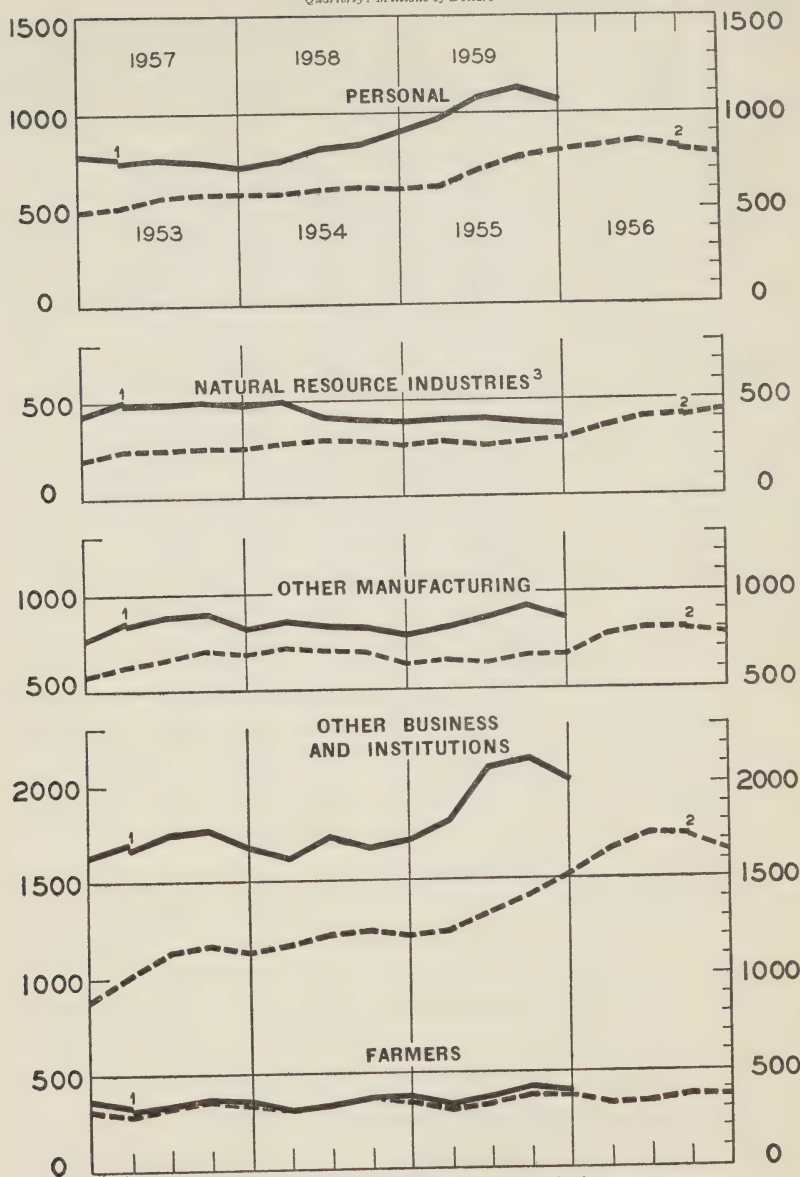
With their loans and non-Government investments declining and the over-all cash reserve ratio running well over the required 8 per cent level, the banks as a group were in a position to increase their more liquid assets. Between Aug. 19 and Dec. 31 their holdings of treasury bills rose by \$90 million, their day-to-day loans by \$67 million, and their net foreign assets by \$79 million. The reduction in total chartered bank holdings of Government bonds continued on a diminishing scale for some weeks after the down-turn in loans and non-Government investments, and finally came to an end about mid-November. On Dec. 31 Government bond holdings were \$146 million lower than they had been on Aug. 19 but \$122 million above the level of July 31, 1957, so that the reduction in chartered bank bond holdings from October 1958 onwards, though large, was nevertheless somewhat less than the massive increase which had occurred between July 1957 and October 1958. As a percentage of deposits, however, holdings of Government bonds were 15 per cent at the end of 1959 as compared with 16 per cent in July 1957.

The upsurge in bank loans from late 1958 through much of 1959 was clearly related to the stage of the business cycle through which the economy was passing, and in many respects resembled a similar upsurge in 1955-56. Much of the increase in bank credit apparently served to finance increased levels of business inventories and receivables as recovery and expansion proceeded. On the other hand the level of bank borrowing by firms in major natural resource industries declined slightly in 1959. In general, corporate borrowing for capital expansion does not appear to have been a major factor in the increase in bank loans either directly or through pressure on working capital positions. The recovery in business fixed capital outlays was still in its early stages and corporate profits had risen sharply.

The flow of bank credit to the personal sector also increased markedly, both in the form of direct personal loans by the banks, and in the form of consumer credit extended by retailers and finance

CHARTERED BANKS **GENERAL LOANS BY CATEGORY OF BORROWERS**

Quarterly: Millions of Dollars



1. Breaks reflect reallocation of reserves consequent upon securities revaluation.
2. Breaks reflect exclusion of certain foreign currency loans previously included in this series.
3. Forest products, mining and mine products (other than iron and steel), petroleum and products.

Chartered Banks
Classification of General Loans by Category of Borrower
(millions of dollars)

	As at Dec. 31/59	Increase or decrease (-) during:					
		Year 1955	Year 1956 ⁽¹⁾	Year 1957 ⁽²⁾	Year 1958	12 months ending ⁽³⁾ Sept. 30/59	Year 1959
Natural resource industries							
Mining and mine products . . .	110	-5	38	70	-34	-24	-25
Petroleum and products.	98	18	52	-34	-9	5	-1
Forest products.	165	17	56	16	-53	6	10
Sub-total	373	30	146	52	-96	-13	-16
Other manufacturing industries							
Iron and steel products	189	-	53	17	-8	43	32
Other manufactured products	670	46	52	51	-40	70	50
Sub-total	859	46	105	68	-48	113	82
Construction contractors	308	91	35	-51	8	82	46
Public utilities, transport and communication.	170	73	11	24	-39	35	36
Merchandisers	821	73	28	50	-25	147	122
Other business	552	61	36	26	59	166	80
Total Business Loans	3,083	374	360	168	-141	529	351
Personal	1,061	199	-4	-44	173	296	163
Farmers.	389	28	-9	-	19	48	22
Non-business institutions	168	13	19	27	25	33	28
Total General Loans	4,701	614	366	150	75	907	564

- (1) Changes are adjusted to exclude effect of reclassification of foreign currency loans at Sept. 30, 1956.
(2) Changes are adjusted to exclude effect of reallocation of inner reserves at Jan. 31, 1957.
(3) Sept. 30 is the date nearest to the 1959 loan peak for which this classification is available.

companies with funds borrowed from the banks. To a considerable extent, the strength of demand for personal loans may have been an outcome of the high level of expenditures on residential housing as well as increased purchases of consumer durables. Another factor was the introduction and active promotion of new personal lending plans by a number of banks during the period.

Trends in the major categories of general loans are illustrated in the chart on page 47 and the table on page 48.

After the change in bank lending policies in mid-summer there was a greater than seasonal decline in bank loans which was widely distributed among the various categories of borrowers.

A table showing chartered bank business loans classified according to the size of authorized lines of credit will be found on pages 50 and 51. The table also shows the total amounts of business loan authorizations of \$100,000 and over. The total of these authorizations, which had been \$4,148 million at Dec. 31, 1957 and \$4,457 million at Dec. 31, 1958 rose further to \$4,763 million at mid-year and then declined to \$4,438 million at the end of 1959.

The chartered banks' holdings of insured mortgages increased by \$178 million in 1959, compared with an increase of \$204 million in 1958. Chartered bank gross disbursements on mortgages (i.e., before deduction of sales and repayments) are estimated to have been \$240 million in 1959 as against \$260 million in 1958. The amount of new mortgage loans approved by the banks in 1959 was \$176 million, a sharp reduction from the 1958 figure of \$300 million. By the year-end the chartered banks had virtually withdrawn from making new housing loans in view of competing demands for credit from other types of borrowers. The 6 per cent ceiling on the rate they may charge was substantially below the normal relationship of such loan yields to those on other available investments.

The agreement among the chartered banks regarding term loans to business corporations was again revised in 1959. At the end of 1958 the agreement provided that the banks would not make loans to business corporations in amounts exceeding \$2 million where the time of repayment was deferred beyond one year, and would not make equivalent security purchases direct from borrowers in this category. In 1959 the \$2 million limit was reduced to \$1 million.

During 1959 the chartered banks instituted a more rapid system for clearing cheques of \$100,000 and over, and so of debiting the deposit accounts of the drawers of the cheques. This appears to have reduced the average amount of float, i.e., cheques and other items in transit, and therefore of gross deposits by an amount of the order of \$50 million to \$100 million.

Chartered Banks : Classification of General Loans

(millions of dollars)

	Authorized Lines of Credit	Outstanding Loans	
		Business Loan Accounts with Authorized Limits of:	
		\$100,000 or more	Less than \$100,000
End of:	Total Amount of Business Loan Authorizations of \$100,000 or more		
1956—Apr. ⁽²⁾	3,717	1,793	940
June ⁽²⁾	3,716	1,880	969
Sept.	3,806	1,941	933
Dec.	3,788	1,895	869
1957—Mar. ⁽³⁾	3,812	2,034	885
June	3,878	2,131	901
Sept.	4,048	2,171	888
Dec.	4,148	2,032	841
1958—Mar.	4,226	1,991	862
June	4,320	1,964	914
Sept.	4,339	1,856	904
Dec.	4,457	1,821	911
1959—Mar.	4,616	1,893	973
June	4,763	2,125	1,080
Sept.	4,518	2,252	1,037
Dec.	4,438	2,105	978

(1) Religious, educational, health and welfare institutions.

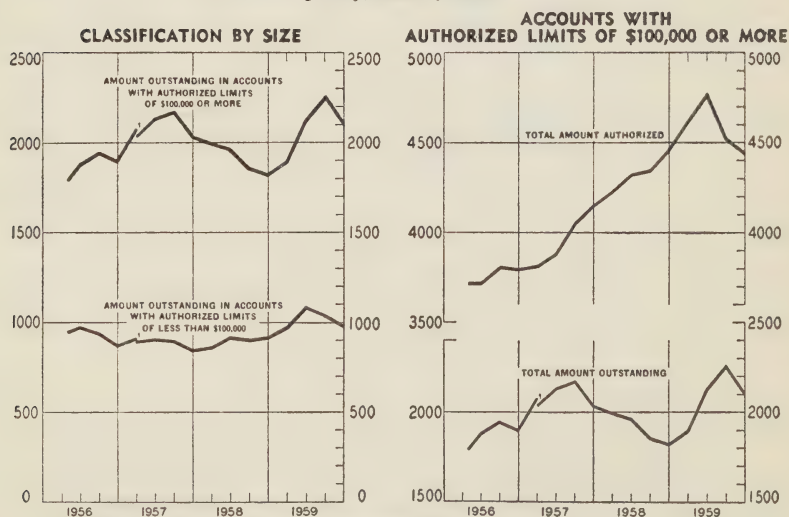
(2) Excludes an estimate of foreign currency loans in Canada and therefore is not comparable with other published data.

(3) The continuity of series is affected by the reallocation of reserves following a change in the method of valuing Government of Canada and provincial securities on Jan. 31, 1957.

<u>Total Business Loans</u>	<u>Personal Loans</u>	<u>Loans to Farmers</u>	<u>Loans to Non-business Institutions⁽¹⁾</u>	<u>Total General Loans</u>
2,733	841	338	79	3,990
2,849	843	338	79	4,109
2,874	823	368	83	4,147
2,765	786	357	90	3,998
2,919	745	309	83	4,056
3,032	761	329	91	4,213
3,059	748	357	104	4,267
2,874	725	349	115	4,063
2,853	754	299	117	4,023
2,878	809	333	114	4,134
2,759	838	363	125	4,086
2,732	898	368	140	4,138
2,865	965	328	153	4,312
3,205	1,081	359	161	4,807
3,288	1,134	412	158	4,992
3,083	1,061	389	168	4,701

CHARTERED BANKS : BUSINESS LOANS

Quarterly: Millions of Dollars



1. Breaks reflect reallocation of reserves consequent upon securities revaluation.

Currency and Chartered Bank Deposits. After rising by 16 per cent between the end of July 1957 and early October 1958 to a level of \$13.2 billion, the total of currency outside banks and chartered bank deposits remained approximately stable through 1959, apart from minor fluctuations. The growth in personal savings deposits at the chartered banks, which has continued over many years and was particularly large during 1958, was very small in 1959.

Currency Outside Banks and Chartered Bank Deposits

(millions of dollars)

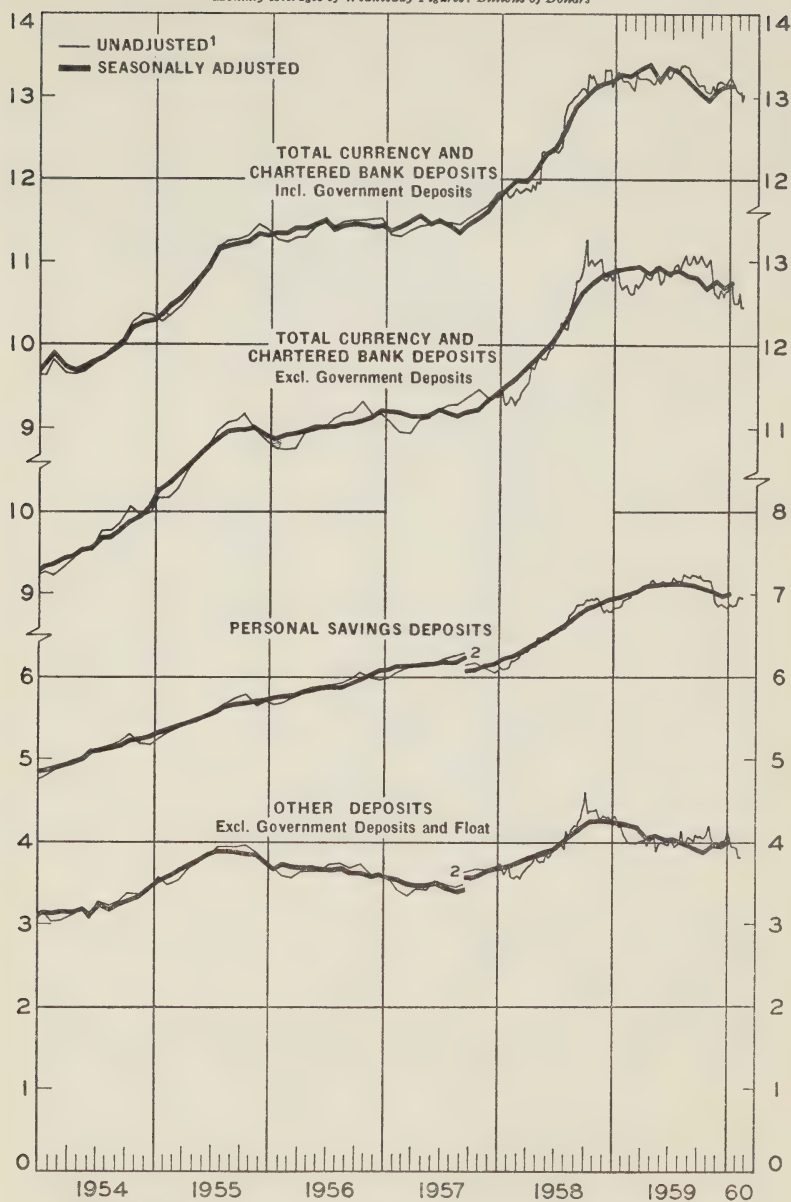
	As at Dec. 31/59	Increase or decrease (-) during:				
		July 31/57 to Oct. 1/58	Oct. 1/58 to Aug. 19/59	Aug. 19/59 to Dec. 31/59	July 31/57 to Dec. 31/59	Year 1959
Held by general public						
Currency outside banks						
Notes	1,705	103	12	77	192	45
Coin	128	9	8	2	19	7
Personal savings deposits	6,900	823 ⁽¹⁾	287	-313	797 ⁽¹⁾	56
Other deposits ⁽²⁾	4,057	1,026 ⁽¹⁾	-588	54	492 ⁽¹⁾	-246
Total	12,789	1,961	-281	-180	1,499	-138
Government deposits . . .	404	-119	362	13	256	84
Total currency and chartered bank deposits ⁽²⁾	13,193	1,842	81	-168	1,755	-54

(1) Figures adjusted to eliminate effect of reclassification at September 30, 1957 of certain deposits from "Personal savings deposits" to "Other deposits".

(2) Less total float.

CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS

Monthly Averages of Wednesday Figures: Billions of Dollars

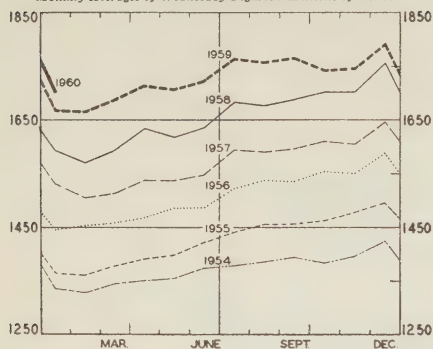


1. Plotted weekly 1958-60.

2. Breaks reflect reclassification at September 30, 1957, of certain deposits from "Personal Savings Deposits" to "Other Deposits".

CURRENCY OUTSIDE BANKS¹

Monthly Averages of Wednesday Figures: Millions of Dollars



1. Notes and coin.

The year-to-year rate of growth in holdings of currency outside banks (notes and coin) also slackened markedly during 1959, as shown in the chart. A table showing the total of each denomination of Bank of Canada notes outstanding at recent year-ends appears below.

Bank of Canada Note Liabilities

(as at December 31st—thousands of dollars)

Notes issued by the Bank of Canada	1950	1956	1957	1958	1959
\$1	50,273	70,270	72,589	75,873	78,402
2	37,279	50,371	51,952	53,597	55,076
5	111,731	138,004	139,839	143,010	144,702
10	429,886	528,741	528,575	533,078	521,309
20	346,060	555,755	582,163	627,814	647,276
25	47	46	46	46	46
50	108,735	134,381	134,803	143,606	145,461
100	254,457	364,052	365,479	391,629	395,383
500	160	58	51	49	46
1,000	11,489	13,233	14,661	15,928	19,549
Total	1,350,117	1,854,912	1,890,159	1,984,630	2,007,250
Chartered banks' notes*	12,487	9,025	8,799	8,655	8,519
Dominion of Canada notes*	4,702	4,651	4,648	4,645	4,641
Provincial notes*	28	28	28	28	28
Defunct banks' notes*	88	88	88	88	88
Total Bank of Canada note liabilities	1,367,422	1,868,704	1,903,721	1,998,046	2,020,525
Held by:					
Chartered banks	231,306	370,938	348,606	338,176	315,703
Others	1,136,116	1,497,766	1,555,115	1,659,870	1,704,822

* These are note issues which are in the process of being retired and the liability for them has been taken over by the Bank of Canada from the original issuers.

Capital Market. Developments within the banking system during 1959 may be viewed in the context of a larger picture — the shifting balance between the total demand for, and the total supply of, funds in the capital market as a whole. A large part of the total flow of funds through the capital market is covered in the table on pages 56 and 57 which combines net new issues of securities and the increase in chartered bank loans (including their insured mortgage loans) but owing to lack of up-to-date information the tabulation does not take account of mortgage borrowing from financial institutions other than chartered banks*, or of borrowing from non-institutional sources other than through new issues of securities, or of transfers of funds within the general public sector through the sale of existing securities.

As shown in the chart on page 58, the combined total of funds raised in securities markets and from the chartered banks rose to a record level in the first half of 1959 far exceeding that of any previous half year, and then declined considerably in the latter part of 1959. Federal, provincial and municipal borrowing in the first half of 1959 was at about the same high level as in the first half of 1958, though somewhat less than in the second half of 1958, while private borrowing rose sharply and approached the peak level reached in the first half of 1957. The figures are such as to suggest that among other factors there may have been some anticipatory borrowing in the first half of 1959 which tended to relieve the pressure on financial markets in the later period. Within the private sector, demand for funds on the part of wholesale and retail trade and manufacturing (other than natural resource industries) was particularly strong, and the personal sector also absorbed a heavy

* Certain information which is available on mortgage lending by non-bank financial institutions is summarized below:

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
	<i>(millions of dollars)</i>				
Life insurance companies in Canada					
Estimated gross mortgage disbursements	470	510	445	400	475
Less estimated mortgage repayments	175	200	200	240	250
Net increase in mortgage holdings	295	310	245	160	225
Net increase in mortgage holdings of:					
Trust and loan companies	87	80	26	106	n.a.
Credit unions	40	25	26	27	n.a.
Quebec savings banks	7	10	11	10	7
Trusted pension funds	n.a.	n.a.	n.a.	51	n.a.

Other loans to individuals by life insurance companies, credit unions and Quebec savings banks which are not covered in the tabulation on pages 56 and 57, are shown in the table on page 71.

Funds Raised by Canadian Borrowers from Securities Markets and Chartered Banks

(millions of dollars)

	Funds Raised from		Funds Raised by Government of Canada		
	<u>Securities Markets⁽¹⁾</u>	<u>Chartered Bank Loans⁽²⁾</u>	<u>Net New Issues of Securities</u>	<u>Net Disinvest- ment(+) by Govt. Accts.</u>	<u>Total</u>
Calendar Years					
1955	1,550	963	535	-287	248
1956	1,560	724	-766	-27	-793
1957	2,418	200	-70	+151	81
1958	3,174	292	1,252	+109	1,361
1959	2,647	867	723	+335	1,058
Half-Years					
1955—I	800	256	-48	-6	-54
II	750	707	582	-281	301
1956—I	686	571	-341	-116	-457
II	874	153	-424	+89	-335
1957—I	1,219	316	-333	+157	-176
II	1,199	-116	263	-6	257
1958—I	1,680	-13	338	+238	576
II	1,494	305	914	-129	785
1959—I	1,533	764	379	+251	630
II	1,114	103	344	+84	428

(1) Net new issues of securities plus disinvestment by Government accounts. Includes net sales of securities to chartered banks.

(2) Increase in loans to provincial and municipal governments, instalment finance companies, grain dealers, general loans and insured mortgages.

<u>Provincial Govts.</u>	<u>Municipal Govts.</u>	<u>Private Borrowers⁽³⁾</u>				<u>Grand Total</u>
		<u>Natural Resource Industries⁽⁴⁾</u>	<u>Other Mfg. and Business</u>	<u>Personal⁽⁵⁾</u>	<u>Total</u>	
233	246	405	726	656	1,787	2,513
552	280	716	1,053	476	2,245	2,284
543	285	512	1,089	107	1,708	2,618
594	364	194	514	439	1,147	3,466
529	319	3	1,104	502	1,609	3,514
113	158	222	413	204	839	1,056
120	87	183	313	452	948	1,457
195	153	280	831	256	1,367	1,257
357	127	436	222	220	878	1,027
155	172	399	994	-10	1,383	1,535
387	114	114	94	117	325	1,083
270	185	113	411	112	636	1,667
324	180	81	103	327	511	1,799
254	155	34	990	235	1,259	2,297
275	164	-31	114	267	350	1,217

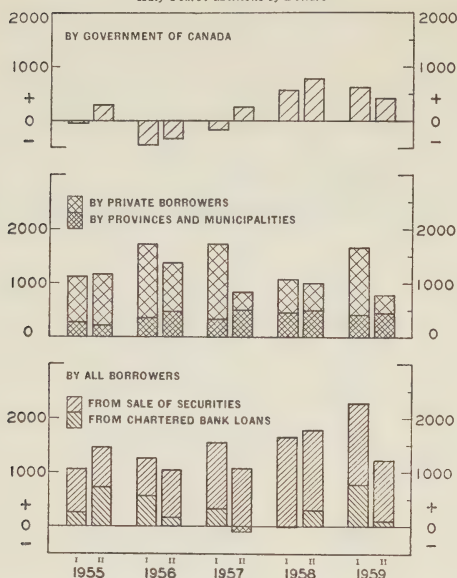
(3) Classified by ultimate borrower.

(4) Uranium, non-ferrous metals and non-metallic mining, petroleum and forest products.

(5) Increase in chartered bank personal loans and insured mortgages, and finance company and retail dealer credit extended to consumers.

FUNDS RAISED BY CANADIAN BORROWERS FROM SECURITIES MARKETS AND CHARTERED BANKS

Half Years: Millions of Dollars

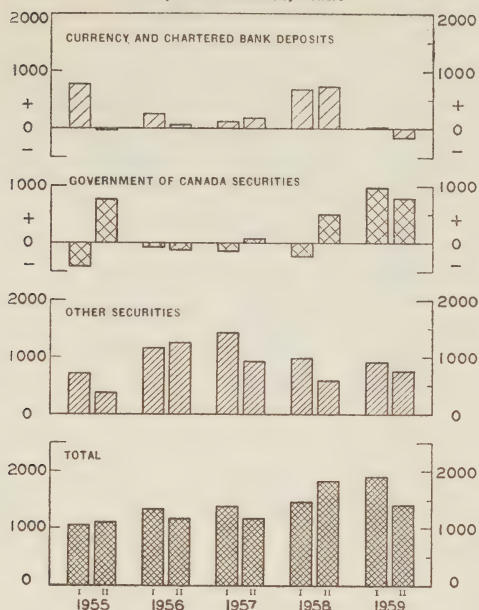


volume of funds. The total amount of borrowing by firms in the natural resource industries, on the other hand, was much less than in any recent year. The lowest panel of the above chart shows how heavily borrowers increased their reliance on the chartered banks in the early part of 1959 while raising funds in the new issue market at about the same rate as in 1958.

Some indication of the effect of the heavy volume of borrowing in 1959 on the size and composition of financial asset holdings of the general public (including corporations, non-bank financial institutions and non-residents) is provided by the table on pages 60 and 61 and the chart on page 59. As will be seen from the chart, a large part of the increase in public holdings of financial assets in 1958 took the form of currency and bank deposits. In 1959, by contrast, the public's holdings of currency and bank deposits declined, so that the total increase in its financial assets was more than accounted for by net purchases of securities. About half of these were Government securities, which were being offered on the market not only as a result of net new issues but also as a result of disinvestment of existing securities by the chartered banks and Government accounts.

INCREASES IN HOLDINGS OF CERTAIN FINANCIAL ASSETS BY THE GENERAL PUBLIC

Half Years: Millions of Dollars



The general public acquired a substantially larger amount of provincial bonds in 1959 than in 1958, a slightly smaller amount of municipal bonds, and a much reduced amount of corporate bonds. Net purchases of corporate stocks and of finance company paper, on the other hand, were much greater than in 1958.

A substantial part of the increase in the financial assets of the general public during 1959 took the form of additional short-term securities acquired by corporations and financial institutions. It seems probable that these holders absorbed most of the increase in the general public's holdings of treasury bills, finance company paper and short-term Government bonds. In the fourth quarter, individual investors played an increasingly important role, adding \$550 million to their holdings of Canada Savings Bonds and also, it would appear, buying significant amounts of the Government direct and guaranteed market issues sold during the period.

Details of net new issues of securities and of the distribution of holdings of Government of Canada securities are shown in the tables and charts on pages 62 to 66.

Increases in Holdings of Certain Financial Assets by the General Public*

(millions of dollars)

Calendar Years	Securities					Provincial Bonds
	Government of Canada Securities					
	Treasury Bills	Other Market Issues	Canada Savings Bonds	Total		
1955	286	—288	343	340	153	
1956	—209	—102	108	—203	593	
1957	4	—184	108	—73	551	
1958	125	—98	246	274	484	
1959	341	1,100	317	1,757	628	
Half Years						
1955—I	144	—430	—130	—417	103	
II	142	142	473	757	50	
1956—I	—41	102	—140	—79	282	
II	—168	—204	248	—124	311	
1957—I	19	57	—226	—151	254	
II	—15	—241	334	78	296	
1958—I	—50	4	—178	—223	278	
II	175	—102	424	498	206	
1959—I	255	839	—128	966	304	
II	85	261	444	791	324	

* General public is defined to include all holders other than the Bank of Canada, chartered banks and Government accounts. It includes, for example, corporations, financial institutions other than chartered banks, provincial and municipal government accounts and non-residents, as well as resident persons.

<u>Municipal Bonds</u>	<u>Corporate and Other Bonds</u>	<u>Finance Co. Short-term Paper</u>	<u>Corporate Stocks</u>	<u>Total</u>	<u>Currency and Chartered Bank Deposits</u>	<u>Total Increase in Period</u>
184	218	59	462	1,416	743	2,159
260	762	94	689	2,195	312	2,507
277	939	48	517	2,259	308	2,567
313	607	—111	300	1,867	1,427	3,294
296	218	135	409	3,443	—138	3,305
100	152	30	322	290	765	1,055
83	66	29	140	1,125	—22	1,103
132	341	101	300	1,077	251	1,328
128	421	—7	389	1,118	61	1,179
119	739	91	212	1,264	121	1,385
159	200	—43	305	995	187	1,182
162	448	—9	117	772	692	1,464
152	159	—102	183	1,096	735	1,831
115	92	124	285	1,886	15	1,901
181	126	11	124	1,557	—153	1,404

Net New Issues of Securities⁽¹⁾

(millions of dollars)

	1957		
	<u>Cdn. \$ only</u>	<u>Other Currencies</u>	<u>Total</u>
Government of Canada securities ⁽²⁾			
Bonds.	-52	-68	-120
Treasury bills	50	—	50
Total	-2	-68	-70
Non-Government securities			
Provincial bonds ⁽²⁾	505	44	549
Municipal bonds ⁽³⁾	168	97	264
Corporate bonds	571	384	956
Other bonds ⁽³⁾	3	—	3
Total bonds	1,247	525	1,772
Finance company short-term paper ⁽⁴⁾	48	—	48
Total bonds and short-term paper	1,295	525	1,820
Corporate stocks ⁽⁵⁾			
Preferred	123	-33	90
Common.	424	2	427
Total corporate stocks	547	-31	517
Total non-Government securities	1,842	494	2,337
Total	1,840	427	2,267

(1) Gross new issues less retirements. 1959 figures are preliminary.

(2) Includes guaranteed securities.

(3) Consists of bonds of religious and other institutions.

1958			1959		
<u>Cdn. \$</u> <u>only</u>	<u>Other</u> <u>Currencies</u>	<u>Total</u>	<u>Cdn. \$</u> <u>only</u>	<u>Other</u> <u>Currencies</u>	<u>Total</u>
1,383	-2	1,382	289	-149	141
-130	-	-130	582	-	582
<u>1,253</u>	<u>-2</u>	<u>1,252</u>	<u>871</u>	<u>-149</u>	<u>723</u>
470	144	614	325	233	559
223	118	340	190	115	305
478	187	665	148	23	171
3	-	3	11	-	11
<u>1,174</u>	<u>449</u>	<u>1,623</u>	<u>674</u>	<u>372</u>	<u>1,046</u>
-111	-	-111	135	-	135
<u>1,064</u>	<u>449</u>	<u>1,512</u>	<u>809</u>	<u>372</u>	<u>1,181</u>
29	-	29	78	-	78
269	2	272	330	1	331
<u>298</u>	<u>2</u>	<u>300</u>	<u>408</u>	<u>1</u>	<u>409</u>
1,362	451	1,813	1,217	372	1,589
2,615	449	3,065	2,088	224	2,312
<u><u>1,362</u></u>	<u><u>451</u></u>	<u><u>1,813</u></u>	<u><u>1,217</u></u>	<u><u>372</u></u>	<u><u>1,589</u></u>
<u><u>2,615</u></u>	<u><u>449</u></u>	<u><u>3,065</u></u>	<u><u>2,088</u></u>	<u><u>224</u></u>	<u><u>2,312</u></u>

(4) Paper with an original term to maturity of one year or less.

(5) Canadian stock issues with dividends payable in U.S. dollars are shown under "Other Currencies".

Net New Issues of Corporate Securities⁽¹⁾

Industrial Classification of Bonds, Stocks and Finance Company Short-Term Paper (millions of dollars)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Non-financial corporations					
Natural resource industries					
Uranium mines.	68	122	65	43	-23
Other non-ferrous metal mines and products	155	50	164	40	—
Non-metallic mines and products.	27	70	14	18	7
Petroleum and products.	164	202	175	153	34
Wood and paper and products	-40	127	42	36	1
Sub-total	<u>374</u>	<u>570</u>	<u>460</u>	<u>290</u>	<u>19</u>
Other manufacturing industries					
Iron and steel and products	45	91	26	29	49
Other manufactured products	32	78	40	41	8
Sub-total	<u>77</u>	<u>169</u>	<u>66</u>	<u>71</u>	<u>57</u>
Utilities					
Railways and telegraphs.	-31	-21	-20	57	-23
Telephones	80	146	168	131	164
Pipelines	9	138	269	107	-4
Other utilities	59	112	285	201	138
Sub-total	<u>117</u>	<u>375</u>	<u>702</u>	<u>496</u>	<u>275</u>
Merchandisers	53	56	28	7	32
Other	20	22	2	4	9
Total	<u>641</u>	<u>1,193</u>	<u>1,258</u>	<u>869</u>	<u>392</u>
Financial corporations					
Instalment finance and small loan companies.	92	239	137	-116	183
Other finance, insurance and real estate.	108	149	125	103	139
Total	<u>200</u>	<u>388</u>	<u>262</u>	<u>-13</u>	<u>322</u>
Total	<u>841</u>	<u>1,581</u>	<u>1,520</u>	<u>855</u>	<u>714</u>

(1) Does not include issues guaranteed by provincial governments (e.g. net new issues of provincial hydro commissions which amounted to \$120 million in 1955, \$261 million in 1956, \$315 million in 1957, \$276 million in 1958, and \$172 million in 1959).

Government of Canada Direct and Guaranteed Securities Distribution of Holdings

(par values, millions of dollars)

	As at Dec. 31/59	Increase or decrease (-) during:					
		1959				Year 1959	Year 1958
		1Q	2Q	3Q	4Q		
Bank of Canada							
Treasury bills	309	126	93	45	9	273	-433
Other market issues. . . .	2,368	-195	-17	4	-58	-266	640
Total	2,677	-70	76	49	-49	7	207
Chartered Banks							
Treasury bills	983	-51	116	-91	53	27	148
Other market issues. . . .	1,827	47	-460	-253	-72	-737	731
Total	2,811	-4	-343	-344	-19	-710	879
Government Accounts							
Unemployment Insurance Fund							
Treasury bills	23	-54	-	-	23	-31	-3
Other market issues	445	-75	-	-	-45	-121	-252
Total	468	-129	-	-	-22	-152	-255
Securities Investment Account							
Treasury bills	-	-8	-18	-	-	-25	25
Other market issues. . . .	50	-46	71	-25	-50	-50	100
Total	50	-54	54	-25	-50	-75	125
Other Government Accounts							
Treasury bills	7	-	-2	-1	-1	-3	8
Other market issues. . . .	398	-132	11	9	7	-106	14
Total	405	-132	10	7	6	-109	22
General Public⁽¹⁾							
Treasury bills	755	86	169	116	-31	341	125
Other market issues. . . .	6,758	486	353	187	74	1,100	-97
Total	7,513	571	522	304	43	1,440	28
of which:							
non-residents ⁽²⁾	727	20	79	32	-38	93	96
life insurance cos. ^{(2) (3)} . .	590	31	9	2	-9	33	19
all other holders ^{(1) (2)} . . .	6,196	520	434	270	90	1,314	-87
Canada Savings Bonds . . .	3,212	-40	-87	-105	550	317	246
Total	10,725	531	435	198	593	1,757	274
Total Outstanding							
Treasury bills	2,077	100	360	69	53	582	-130
Other market issues. . . .	11,845	84	-42	-79	-144	-181	1,136
Canada Savings Bonds . . .	3,212	-40	-87	-105	550	317	246
Total	17,135	144	231	-115	459	718	1,252

(1) Residual. Includes investment dealers.

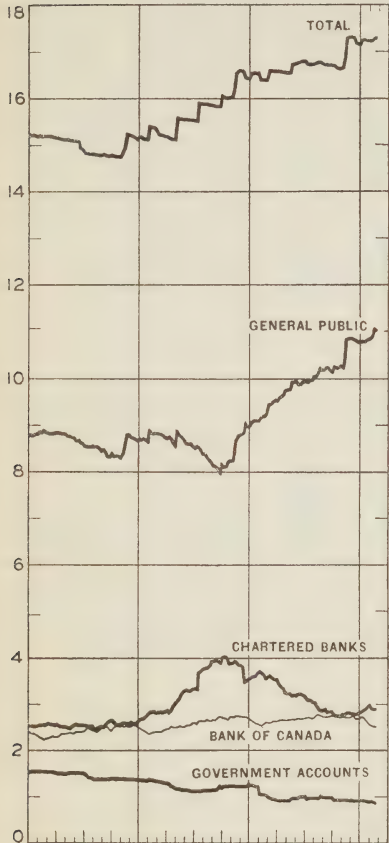
(2) Preliminary estimates.

(3) Holdings in respect of Canadian operations.

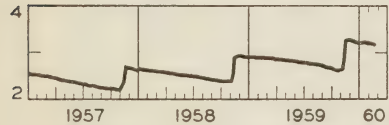
GOVERNMENT OF CANADA DIRECT AND GUARANTEED SECURITIES
DISTRIBUTION OF HOLDINGS

Par Value, Billions of Dollars
Wednesdays

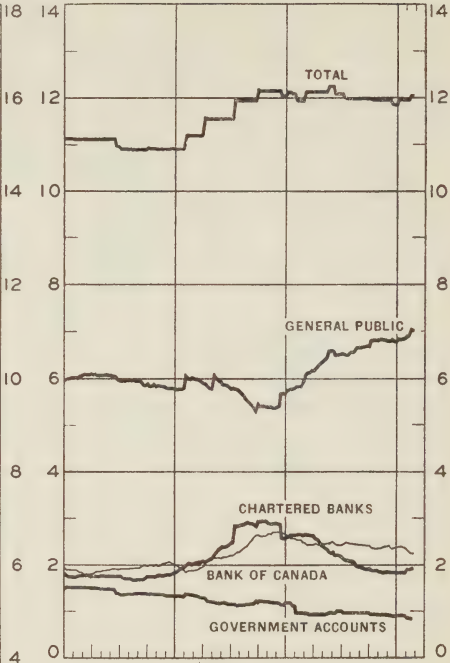
TOTAL OUTSTANDING



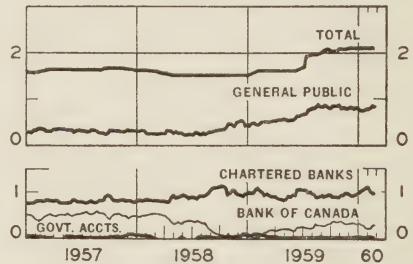
CANADA SAVINGS BONDS



MARKETABLE BONDS



TREASURY BILLS

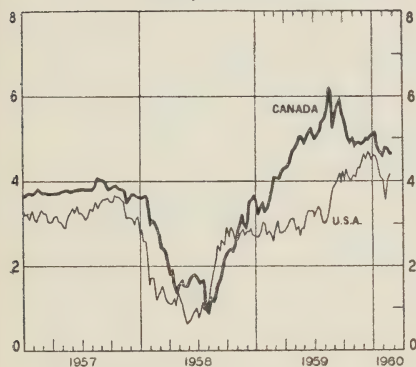


Interest Rates. Yields on Government bonds, which had been rising since mid-1958, reached a peak in September 1959. Long-term yields then levelled off; yields on shorter-term issues declined and by the end of the year were substantially below the September levels. Yields on 91-day treasury bills rose from a low of 3.25 per cent at the beginning of the year to 6.16 per cent in mid-August, dropped to 4.83 per cent in early November and rose to 5.12 per cent at the year-end.

GOVERNMENT SECURITY YIELDS : CANADA AND THE UNITED STATES

TREASURY BILLS*

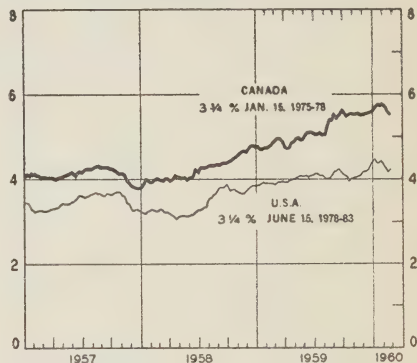
Weekly: Per Cent



* 91-day Treasury Bills.

LONG - TERM GOVERNMENT BONDS

Weekly: Per Cent

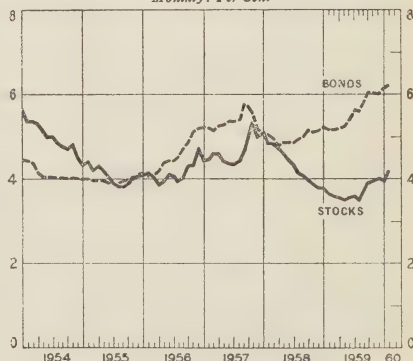


Yields on United States Government securities, which began rising in the second quarter of 1958, increased less rapidly than Canadian yields during the first three quarters of 1959. As a result, the yield spread between Canadian and United States long-term Government securities was higher in the autumn than it had been for many years. By the end of the year the spread had narrowed somewhat.

Yields on long-term provincial, municipal, public utility and industrial bonds have risen steadily since the second quarter of 1958. Yields on com-

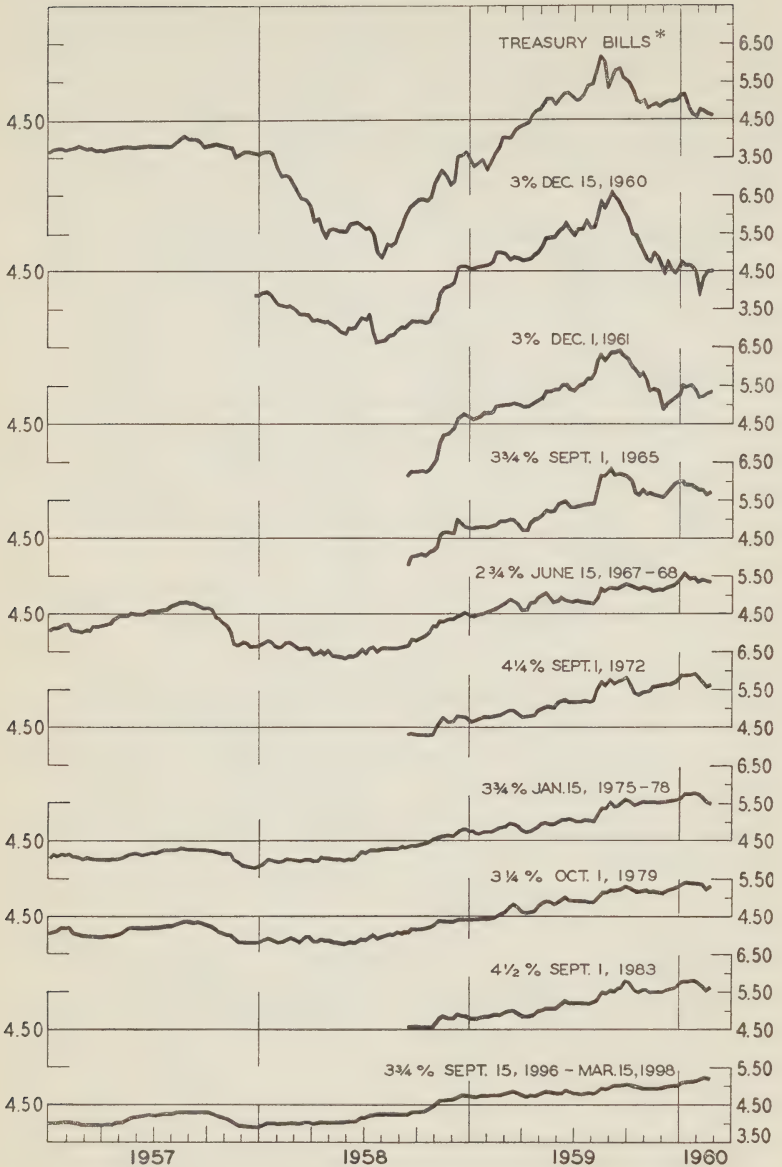
YIELDS ON INDUSTRIAL BONDS AND COMMON STOCKS

Monthly: Per Cent



GOVERNMENT SECURITY YIELDS

Wednesdays: Per Cent



* 91-day bills. Average rate at weekly tender on Thursday following Wednesday date.

mon stocks, which had been declining since October 1957, reached a low point at the end of July 1959 and have been rising since that time.

The prime commercial loan rate charged by the chartered banks was increased from $5\frac{1}{4}$ per cent to $5\frac{1}{2}$ per cent in early March 1959, and again to $5\frac{3}{4}$ per cent in late April. Interest rates paid by trust and loan companies on guaranteed investment certificates, and by finance companies and other corporations on short-term paper, rose substantially during 1959.

Trends in interest rates during 1957, 1958 and 1959 are shown in the table below and the chart on the opposite page.

Interest Rates and Yields

(per cent)

	<u>High</u> <u>1957</u>	<u>Dec.</u> <u>31</u> <u>1957</u>	<u>June</u> <u>4</u> <u>1958</u>	<u>Dec.</u> <u>31</u> <u>1958</u>	<u>Aug.</u> <u>12</u> <u>1959</u>	<u>Sept.</u> <u>30</u> <u>1959</u>	<u>Dec.</u> <u>30</u> <u>1959</u>
Government security yields							
91-day treasury bills ⁽¹⁾	4.08	3.60 ⁽²⁾	1.72	3.49	6.16	5.50	5.12
3% Dec. 1, 1961	—	—	—	4.69	6.11	6.22	5.27
3 $\frac{3}{4}$ % Sept. 1, 1965	—	—	—	4.74	5.81	6.12	6.00
2 $\frac{3}{4}$ % June 15, 1967-68. . . .	4.81	3.66	3.37	4.48	4.90	5.30	5.37
4 $\frac{1}{4}$ % Sept. 1, 1972	—	—	—	4.70	5.50	5.82	5.77
3 $\frac{3}{4}$ % Jan. 15, 1975-78	4.29	3.80	4.02	4.76	5.19	5.61	5.60
3 $\frac{1}{4}$ % Oct. 1, 1979. . . .	4.35	3.80	3.82	4.42	4.98	5.30	5.30
4 $\frac{1}{2}$ % Sept. 1, 1983	—	—	—	4.81	5.36	5.81	5.71
Other long-term bond yields⁽³⁾							
10 provincials	5.18	4.60	4.47	5.14	5.61	6.19	6.12
10 municipals	5.77	5.12	4.98	5.38	5.86	6.60	6.60
10 public utilities	5.50	5.03	4.81	5.14	5.57	6.01	6.04
10 industrials	5.77	5.04	4.88	5.22	5.60	6.05	6.14
40 bond average	5.53	4.95	4.79	5.22	5.66	6.21	6.23
Common stock yields ⁽⁴⁾							
64 industrials	5.38	5.10	4.46	3.79	3.59	3.89	3.95
Chartered bank prime loan rate . .	5 $\frac{3}{4}$	5 $\frac{1}{2}$	5 $\frac{1}{4}$	5 $\frac{1}{4}$	5 $\frac{3}{4}$	5 $\frac{3}{4}$	5 $\frac{3}{4}$
Savings deposits							
Chartered banks	2 $\frac{3}{4}$	2 $\frac{3}{4}$	2 $\frac{3}{4}$	2 $\frac{3}{4}$	2 $\frac{3}{4}$	2 $\frac{3}{4}$	2 $\frac{3}{4}$
Trust companies (typical rate) . .	3 $\frac{1}{4}$	3 $\frac{1}{4}$	3 $\frac{1}{4}$	3 $\frac{1}{4}$	3 $\frac{1}{2}$	3 $\frac{1}{2}$	3 $\frac{1}{2}$
Trust companies investment certificates (typical 1 year rate)	4 $\frac{1}{2}$ —5	4 $\frac{1}{4}$ —5	2 $\frac{3}{4}$ —3	4	5 $\frac{1}{2}$	5 $\frac{1}{2}$ —5 $\frac{3}{4}$	5 $\frac{1}{2}$

(1) Average rate at tender closest to date shown.

(2) Jan. 2, 1958.

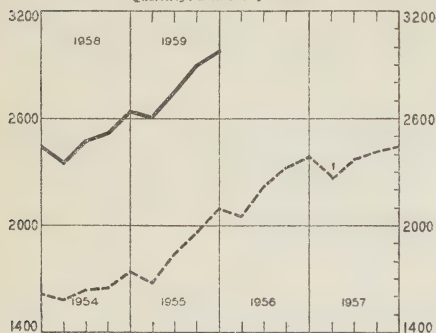
(3) Source: McLeod, Young, Weir & Company Limited. Figures shown refer to the first business day of the month closest to the date shown.

(4) Source: Moss, Lawson & Company Limited in conjunction with the Toronto Stock Exchange.

Consumer Credit and Finance Companies. The total amount outstanding of credit extended to consumers by finance companies and retail dealers and of chartered bank personal loans (other than those fully secured by marketable securities) increased by an estimated

**FINANCE COMPANY AND RETAIL DEALER CREDIT
EXTENDED TO CONSUMERS AND CHARTERED
BANK UNSECURED* PERSONAL LOANS**

Quarterly: Millions of Dollars



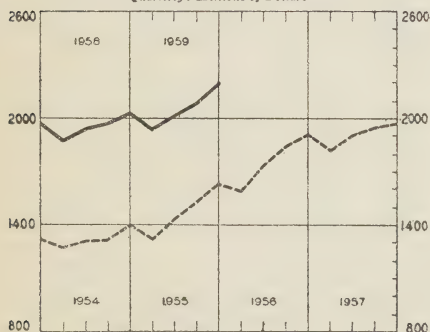
* Personal loans not fully secured by marketable securities.
1. Break reflects reallocation of chartered bank reserves consequent upon securities revaluation.

bank unsecured personal loans increased by \$168 million in 1959 and \$143 million in 1958. After rising sharply from the beginning of 1958, these loans levelled off during the third quarter of 1959 and declined by \$42 million in the fourth quarter. Credit extended by finance companies and retail dealers rose less strongly than banks' personal loans over the first nine months of

those fully secured by marketable securities) increased by an estimated \$329 million in 1959 compared with \$205 million in 1958, \$64 million in 1957, \$290 million in 1956 and \$351 million in 1955. The increase in finance company and retail dealer credit in 1959 amounted to \$161 million compared with an increase of \$62 million in 1958. Chartered

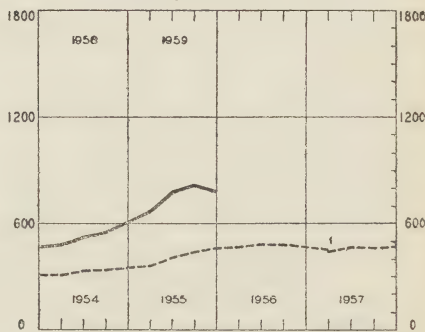
**FINANCE COMPANY AND RETAIL DEALER
CREDIT EXTENDED TO CONSUMERS**

Quarterly: Millions of Dollars



**CHARTERED BANK
UNSECURED* PERSONAL LOANS**

Quarterly: Millions of Dollars



* Personal loans not fully secured by marketable securities.
1. Break reflects reallocation of reserves consequent upon securities revaluation.

1959 but showed much more than the normal seasonal growth in the fourth quarter. Increased loans by small loan companies accounted for nearly half of the total increase in credit extended by finance companies and retail dealers in 1959.

In addition to the increase of \$28 million in instalment finance companies' loans outstanding on consumer goods in 1959 their loans to finance other retail sales (commercial and industrial goods) increased by \$81 million and their holdings of wholesale paper increased by \$4 million. Thus instalment finance companies' total receivables increased by \$113 million in 1959 compared with a decline of \$53 million in 1958.

Consumer Credit and Other Loans to Individuals⁽¹⁾

(millions of dollars)

		Balances Outstanding at Dec. 31/59	Increase or decrease (-) in balances outstanding:				
			1955	1956	1957	1958	1959
Finance company and retail dealer credit extended to consumers							
Instalment finance companies	796	107	157	24	- 12	28	
Small loan companies.	479	64	77	6	39	78	
Department stores	315	41	17	18	20	33	
Other retail dealers	601	25	30	10	15	22	
Sub-total.	2,191	237	281	58	62	161	
Chartered bank personal loans							
Unsecured loans ⁽²⁾	779	114	9 ⁽⁴⁾	6 ⁽⁵⁾	143	168	
Total.	2,970	351	290	64	205	329	
Other loans mainly to individuals for non-business purposes							
Chartered bank secured personal loans ⁽³⁾	282	86	- 13 ⁽⁴⁾	- 50 ⁽⁵⁾	30	- 5	
Life insurance co. policy loans.	323	10	20	25	10	18	
Quebec savings banks.	13	1	3	2	- 1	1	
Credit unions	*	23	52	32	55	*	

(1) Excludes mortgages.

(2) Not fully secured by marketable securities.

(3) Fully secured by marketable securities.

(4) Changes are adjusted to exclude effect of reclassification of foreign currency loans at Sept. 30, 1956.

(5) Changes are adjusted to exclude effect of reallocation of inner reserves at Jan. 31, 1957.

* Not available. Credit unions' non-mortgage loans outstanding at Dec. 31, 1958 amounted to \$313 million.

Public Debt Operations. A summary of the changes during 1959 in Government of Canada direct and guaranteed securities outstanding is shown in the table below. The details of new issues and retirements of Government bonds in 1959 are summarized on pages 76 and 77.

On Jan. 5, 1959, an issue of \$100 million of 4 per cent Government bonds maturing Jan. 1, 1963 and yielding 4.34 per cent was delivered. These bonds are redeemable at the option of the holder on Jan. 1, 1961 or on any subsequent interest payment date up to and including July 1, 1962 at the issue price of 98.75 per cent, subject to three months' notice. They were offered on Dec. 1,

Summary of Changes in Government of Canada Direct and Guaranteed Securities Outstanding

(par values, millions of dollars)

	As at Dec. 31 1959	Increase or Decrease (-) during:					
		1959				Year	Year
		1Q	2Q	3Q	4Q	1959	1958
Treasury bills							
91 day bills	1,375	100	—	-143	-77	-120	-130
182 day bills	462	—	160	212	90	462	—
Special issues maturing June 10, 1960	240	—	200	—	40	240	—
Total	2,077	100	360	69	53	582	-130
Market bonds							
Direct issues payable in							
Can. \$	10,327	258	-187	-75	-340	-344	850
U. S. \$	150	-150	—	—	—	-150	—
£ sterling	20	-1	—	-1	-1	-3	-1
Guaranteed issues	1,334	-35	150	—	196	311	295
Total	11,830	72	-38	-76	-145	-186	1,143
Canada Savings Bonds	3,212	-40	-87	-105	550	317	246
Matured and outstanding market issues	16	12	-4	-3	—	5	-8
Total	17,135	144	231	-115	459	718	1,252

1958 together with a \$300 million issue of 3 per cent Government bonds maturing Dec. 15, 1959 which was delivered Dec. 15, 1958. On Jan. 1 the outstanding \$42 million of 3 per cent Fifth Victory Loan bonds which had not been converted in 1958 were paid off at maturity.

A small retirement was made on Jan. 15 when \$35 million of 3 per cent Government-guaranteed C.N.R. bonds matured. On Feb. 1 a \$150 million issue of 3 per cent bonds maturing Aug. 1, 1963 payable in U.S. dollars was called for prior payment at par. In earlier years the Government had purchased \$129.5 million of the original issue and held it in a special Sinking Fund account leaving a balance of \$20.5 million subject to the call on Feb. 1.

On Feb. 16 the Government offered \$200 million of bonds which were additions to two existing short-term issues. The new bonds, which were delivered on Mar. 2, consisted of \$85 million of 2½ per cent bonds due Apr. 1, 1960 yielding 4.76 per cent and \$115 million of 3 per cent bonds due Dec. 15, 1960 yielding 4.94 per cent.

On Apr. 30 it was announced that in addition to the regular 91 day treasury bills the next weekly tender would include \$20 million of 182 day bills. With the exception of one week in August, 182 day bills were offered at each tender during the remainder of the year.

On May 4 \$150 million of 5 per cent Government-guaranteed C.N.R. bonds were offered for delivery on May 19. The issue consisted of \$60 million of bonds maturing May 15, 1968 priced to yield 5.18 per cent, and \$90 million of bonds due May 15, 1977 priced to yield 5.17 per cent. The C.N.R. applied the proceeds of this issue to the repayment of interest-bearing capital advances from the Government.

On May 29 an offering was announced of \$200 million of one-year treasury bills dated June 10 to be sold at tender, payment for which could be made either in cash or by exchanging 2½ per cent Government bonds due July 1, 1959 at a valuation for this purpose of 101.25 per cent including accrued interest. The average yield of successful tenders was 5.49 per cent and virtually all the successful tenderers took advantage of the conversion offer. The conversion resulted in a reduction of \$187 million (par value) in the

\$500 million total of bonds due to mature July 1. On June 15 a new issue dated July 1 consisting of additional amounts of outstanding short-term bonds totalling \$238 million was offered. The public bought \$125 million of $2\frac{3}{4}$ per cent bonds due Apr. 1, 1960 to yield 5.50 per cent and \$75 million of 3 per cent bonds due Dec. 15, 1960 to yield 5.68 per cent; in addition the Bank of Canada acquired \$19 million of each of these issues in exchange for equal par value amounts of the maturing July 1 issue. On July 1 a total amount of \$313 million of $2\frac{1}{2}$ per cent bonds matured. The overall result of the public debt operations during this period was to increase the amount of treasury bills outstanding by \$200 million and reduce the amount of market bonds outstanding by \$262 million.

When tenders were called for the one-year treasury bills it was announced that they would be offered in denominations of \$1,000, \$25,000, \$100,000 and \$1,000,000. This was the first occasion on which treasury bills were issued in denominations of \$1,000. Commencing with the weekly tender of July 2 the 91 day and 182 day treasury bills were also offered in denominations of \$1,000 and at the tender of Dec. 30 bills in denominations of \$5,000 were added. At the end of the year approximately 25,000 treasury bills in denominations of \$1,000 were outstanding.

On Sept. 14 a new issue of \$325 million of Government bonds and treasury bills to be dated Oct. 1 was offered to the public and \$225 million to the Bank of Canada. The issue was divided into four parts. The public purchased \$200 million and the Bank \$50 million of $5\frac{1}{2}$ per cent bonds due Oct. 1, 1962 yielding 6.33 per cent, and exchangeable at the option of the holder on or before June 30, 1962 into an equal par value of $5\frac{1}{2}$ per cent bonds due Oct. 1, 1975 yielding 5.72 per cent for 16 years. Another part consisted of \$85 million purchased by the public and \$50 million by the Bank of $5\frac{1}{2}$ per cent bonds due Oct. 1, 1960 yielding 6.55 per cent and exchangeable on or before June 30, 1960 into the $5\frac{1}{2}$ per cent bonds maturing Oct. 1, 1975 yielding 5.60 per cent for 16 years. There was also an addition to an outstanding issue of 3 per cent bonds due May 1, 1961, priced to yield 6.61 per cent, of which \$35 million was sold to the public and \$90 million to the Bank. The final part of this issue was an offering of 253 day treasury bills maturing

June 10, 1960 which was sold by tender. The public acquired \$5 million at an average yield of 6.80 per cent and the Bank of Canada purchased \$35 million of these bills at the same yield. The proceeds of these issues were used to retire \$550 million of 3 per cent bonds maturing Oct. 1.

On Nov. 30 \$300 million of Government-guaranteed C.N.R. bonds were offered. The issue consisted of \$200 million of 5½ per cent bonds dated Dec. 15 and due Dec. 15, 1964 yielding 5.85 per cent and exchangeable at the option of the holder on or before June 15, 1964 into equal par values of 5½ per cent bonds due Dec. 15, 1971 to yield 5.67 per cent for 12 years, and \$100 million of 5¾ per cent bonds dated Jan. 1, 1960* and due Jan. 1, 1985 yielding 5.86 per cent. The C.N.R. applied the cash proceeds of this issue to the repayment of interest-bearing capital advances from the Government and on Dec. 15 the Government paid off the \$300 million of 3 per cent bonds maturing on that date.

The 1959 series of Canada Savings Bonds maturing Nov. 1, 1968 went on sale in October. These bonds carry nine coupons, the first 4 per cent, the second 4½ per cent, the third 4½ per cent and the remaining six 5 per cent. Bonds held to maturity will be redeemed at 103 per cent of par value. The average yield of bonds held to maturity is 4.98 per cent. The limit for holdings in any one name was set at \$20,000, compared with \$10,000 in recent years. This year for the first time Canada Savings Bonds may be registered in the name of an estate. At Dec. 31 total sales of this series amounted to \$1,416 million compared with sales of \$844 million of the 1958 series and \$1,217 million of the 1957 series during the comparable periods of each year. The net increase in Canada Savings Bonds outstanding during the fourth quarter was \$550 million in 1959 compared with \$508 million in 1958 and \$436 million in 1957. Total sales during the year 1959 amounted to \$1,495 million while total redemptions and maturities of all series were \$1,178 million so that the net increase during the year amounted to \$317 million. In 1958 total sales were \$844 million, redemptions amounted to \$598 million so that the net increase was \$246 million. Payroll sales of the 1959 series were \$219 million compared to \$207

* This \$100 million issue was delivered on Jan. 4, 1960 and is not included in the total of Government bonds outstanding at Dec. 31, 1959 as referred to on pages 65, 72 and 78.

million of the 1958 series. The total amount of Canada Savings Bonds outstanding at the end of 1959 was \$3,212 million or 18.7 per cent of the Government's total direct and guaranteed securities outstanding and 29.9 per cent of that part of the debt which was held by the general public.

During the year the average term to maturity of market issues of Government securities outstanding shortened by 9 months and

New Issues and Retirements of Government of Canada Direct and Guaranteed Bonds, 1959

<u>Date of Issue or Redemption</u>	<u>Type of Security</u>	<u>Amount</u> (millions of dollars)	
		<u>New Issue</u>	<u>Retirement</u>
Jan. 1	Govt. Loan ⁽¹⁾	100	
Jan. 1	Fifth Victory Loan		42
Jan. 15	C.N.R. — Govt. Gtd.		35
Feb. 1	Govt. Loan ⁽²⁾		150
Mar. 1	Govt. Loan ⁽³⁾	85	
Mar. 1	Govt. Loan ⁽³⁾	115	
May 15	C.N.R. — Govt. Gtd.	60	
May 15	C.N.R. — Govt. Gtd.	90	
June 10	Govt. Loan ⁽⁴⁾		187
July 1	Govt. Loan ⁽³⁾	144	
July 1	Govt. Loan ⁽³⁾	94	
July 1	Govt. Loan		313
Oct. 1	Govt. Loan ⁽⁵⁾	135	
Oct. 1	Govt. Loan ⁽³⁾	125	
Oct. 1	Govt. Loan ⁽⁶⁾	250	
Oct. 1	Govt. Loan ⁽⁷⁾		550
Dec. 15	C.N.R. — Govt. Gtd. ⁽⁸⁾	200	
Dec. 15	Govt. Loan		300
	Canada Savings Bonds	1,495	1,178
	Other retirements		7
	Total	<u>2,893</u>	<u>2,762</u>

- (1) Redeemable at option of holder at Jan. 1, 1961 or subsequent interest dates to July 1, 1962 at 98.75, subject to 3 months' notice.
 (2) Called prior to maturity.
 (3) An addition to an outstanding bond issue.
 (4) Exchanged for one-year treasury bills maturing June 10, 1960.
 (5) Exchangeable on or before June 30, 1960 into an equal par value of 5½% non-callable bonds due Oct. 1, 1975 yielding about 5.60% for 16 years.

stood at 9 years 6 months at Dec. 31. Tables showing the classification by term to maturity of the total debt and of the holdings of the general public appear on page 78.

The reduction during 1959 in the average maturity of the market issues held by the general public arose not from any decrease in longer-term holdings but from the fact that the increase in holdings of shorter-term securities was greater than the increase in holdings of longer-term categories.

<u>Currency of Payment</u>	<u>Coupon Rate %</u>	<u>Date of Maturity</u>	<u>Earliest Call Date</u>	<u>Issue Price</u>	<u>Yield %</u>
C	4	Jan. 1/63	N/C	98.75	4.34
C	3	Jan. 1/59	Jan. 1/56		
C	3	Jan. 15/59	Jan. 15/54		
U.S.	3	Aug. 1/63	Aug. 1/58		
C	2 $\frac{3}{4}$	Apr. 1/60	N/C	97.90	4.76
C	3	Dec. 15/60	N/C	96.70	4.94
C	5	May 15/68	N/C	98.75	5.18
C	5	May 15/77	N/C	98.00	5.17
C	2 $\frac{1}{2}$	July 1/59	N/C		
C	2 $\frac{3}{4}$	Apr. 1/60	N/C	98.00	5.50
C	3	Dec. 15/60	N/C	96.30	5.68
C	2 $\frac{1}{2}$	July 1/59	N/C		
C	5 $\frac{1}{2}$	Oct. 1/60	N/C	99.00	6.55
C	3	May 1/61	N/C	94.65	6.61
C	5 $\frac{1}{2}$	Oct. 1/62	N/C	97.75	6.33
C	3	Oct. 1/59	N/C		
C	5 $\frac{1}{2}$	Dec. 15/64	N/C	98.50	5.85
C	3	Dec. 15/59	N/C		

(6) Exchangeable on or before June 30, 1962 into an equal par value of 5 $\frac{1}{2}$ % non-callable bonds due Oct. 1, 1975 yielding about 5.72% for 16 years.

(7) Refunded in part by a \$40 million issue of 253 day treasury bills maturing June 10, 1960.

(8) Exchangeable on or before June 15, 1964 into an equal par value of 5 $\frac{1}{4}$ % non-callable bonds due Dec. 15, 1971 yielding about 5.67% for 12 years. Part of \$300 million issue; the remaining \$100 million was a non-callable 5 $\frac{3}{4}$ % C.N.R. — Govt. Gtd. loan dated Jan. 1, 1960 to mature Jan. 1, 1985 offered at 98.50 to yield 5.86% for delivery on Jan. 4, 1960.

Government of Canada Direct and Guaranteed Securities Classified by Term to Maturity

(par value, millions of dollars)

	As at Dec. 31 1959	Increase or Decrease (-) during:					
		1959				Year 1959	Year 1958
		1Q	2Q	3Q	4Q		
Total Amount Outstanding							
Treasury bills.	2,077	100	360	69	53	582	-130
Other market issues							
2 years and under	2,883	-15	211	-77	431	549	-222
Over 2 and up to 5 years	1,131	99	-403	-1	-571	-876	-912
Over 5 and up to 10 years	2,075	-	60	70	-2	128	-1,549
Over 10 years	5,758	-	90	-70	-2	18	3,818
Total market issues							
(bonds and treasury bills)	13,923	184	318	-10	-91	401	1,006
Canada Savings Bonds. . . .	3,212	-40	-87	-105	550	317	246
Total	17,135	144	231	-115	459	718	1,252
Average maturity of } 9 yr.		-4	-3	-2	-	-9	+4 yr.
market issues held } 6 mo.		mo.	mo.	mo.		mo.	4 mo.
Amount Held by General Public							
Treasury bills.	755	86	169	116	-31	341	125
Other market issues							
2 years and under	1,626	327	290	66	-77	606	-221
Over 2 and up to 5 years	671	104	-42	68	128	258	-928
Over 5 and up to 10 years	838	26	46	77	23	172	-1,303
Over 10 years	3,623	28	59	-22	-1	64	2,355
Total market issues							
(bonds and treasury bills)	7,513	571	522	304	43	1,440	28
Canada Savings Bonds. . . .	3,212	-40	-87	-105	550	317	246
Total	10,725	531	435	198	593	1,757	274
Average maturity of } 10 yr.		-1 yr.	-10	-6	-	-2 yr.	+6 yr.
market issues held } 10 mo.		1 mo.	mo.	mo.		6 mo.	4 mo.

International Capital Account. The broad trends in Canada's external trade and in the net movements of capital in recent years have been described in a previous section of this Report.

The current account deficit increased from \$1,085 million in 1958 to \$1,460 million in 1959. The net inflow of long-term capital rose somewhat in 1959 but most of the increase in the current account deficit was financed by an equivalent change in the balance of short-term liabilities and assets.

Foreign direct investment in Canada amounted to \$500 million in 1959, up \$80 million from the previous year, while direct investment by Canadians abroad rose from \$48 million in 1958 to \$60 million in 1959.

In 1959 the net inflow of funds arising from all transactions in Canadian bonds amounted to about \$500 million, approximately the same level as in 1958. As the following table indicates, net sales to non-residents of new issues of provincial bonds payable in United States dollars were much higher in 1959 than in 1958 while net new issues of corporate bonds were substantially reduced; in 1959 there was a net retirement of Government of Canada issues held by non-residents. In total, net sales to non-residents of new issues of all Canadian bonds were lower in 1959 than in 1958 by about \$80 million, all of the decline occurring in issues payable in

Net New Issues of Canadian Bonds Sold to Non-Residents

(millions of dollars)

	Payable in Foreign Currency		Payable in Canadian Dollars		Total	
	1958	1959	1958	1959	1958	1959
Government of Canada*	-1	-19	52	-25	51	-44
Provincial*	127	274	-4	5	123	279
Municipal*	116	121	2	-	118	121
Corporate	163	25	37	29	200	54
	<u>405</u>	<u>401</u>	<u>87</u>	<u>9</u>	<u>492</u>	<u>410</u>
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

* Includes guaranteed issues.

Capital Account: Canadian Balance of International Payments

(millions of dollars)

	1958	
	<u>1Q</u>	<u>2Q</u>
Foreign direct investment in Canada ⁽¹⁾	+ 93	+ 94
Canadian direct investment abroad ⁽¹⁾	- 20	- 23
Canadian portfolio security transactions		
Net sales of new issues of Canadian bonds ⁽²⁾		
Government of Canada (incl. guaranteed)	+ 9	+ 21
Provincial (incl. guaranteed)	+ 55	+ 87
Municipal (incl. guaranteed)	+ 8	+ 45
Corporate bonds	+ 73	+ 85
Sub-total	+145	+238
Net transactions in outstanding Canadian bonds	- 2	- 12
Total Canadian bonds	+143	+226
Transactions in Canadian stocks		
Net new issues ⁽²⁾	+ 4	+ 7
Net transactions in outstanding stocks	+ 3	+ 17
Total Canadian stocks	+ 7	+ 24
Total Canadian portfolio security transactions (net)	+150	+250
Transactions in foreign securities (net)	+ 2	- 7
Loans by Government of Canada		
Drawings	- 16	- 8
Repayments	+ 7	+ 17
Gold subscription to I. M. F.	-	-
Increase (+) in Canadian dollar holdings of non-residents	- 16	+ 41
Decrease (+) in official holdings of gold and foreign exchange	- 39	- 52
Other capital movements (net)	+106	+ 11
Over-all capital receipt (+) or payment (-) = total financing of current account	+267	+323

Source: Dominion Bureau of Statistics.

(1) Exclusive of retained (i.e. unremitted) earnings.

(2) Newly-issued Canadian securities sold to non-residents at time of issue less retirements of foreign-held issues.

* Preliminary.

		1959*				Year	Year
<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	1958	1959*
+103	+130	+ 80	+170	+ 85	+165	+ 420	+500
+ 6	- 11	- 20	- 10	- 20	- 10	- 48	- 60
+ 12	+ 9	- 14	- 13	- 9	- 8	+ 51	- 44
- 8	- 11	+100	+ 26	+ 72	+ 81	+ 123	+ 279
+ 32	+ 33	+ 30	+ 1	+ 61	+ 29	+ 118	+ 121
+ 32	+ 10	+ 3	+ 14	+ 28	+ 9	+ 200	+ 54
+ 68	+ 41	+119	+ 28	+152	+111	+ 492	+ 410
- 7	+ 21	+ 34	+ 16	+ 33	+ 13	-	+ 96
+ 61	+ 62	+153	+ 44	+185	+124	+ 492	+ 506
+ 7	+ 9	+ 22	+ 7	- 1	+ 2	+ 27	+ 30
+ 35	+ 33	+ 32	+ 34	+ 25	+ 21	+ 88	+ 112
+ 42	+ 42	+ 54	+ 41	+ 24	+ 23	+ 115	+ 142
+103	+104	+207	+ 85	+209	+147	+ 607	+ 648
+ 3	+ 5	- 1	- 9	- 3	- 8	+ 3	- 21
-	- 10	- 1	-	-	-	- 34	- 1
+ 7	+ 33	-	+ 9	-	+ 25	+ 64	+ 34
-	-	-	-	-	- 59	-	- 59
+ 90	- 9	- 12	+ 46	+ 22	- 43	+ 106	+ 13
+ 32	- 50	+ 49	- 43	- 3	+ 67	- 109	+ 70
-146	+105	+109	+199	+ 9	+ 19	+ 76	+ 336
+198	+297	+411	+447	+299	+303	+1085	+1460

Canadian dollars. However, in 1959 there were net sales to non-residents of outstanding bonds of about \$100 million whereas in 1958 sales and purchases of outstanding bonds had been in balance; increased sales of Government of Canada bonds, mainly to overseas countries, accounted for this change.

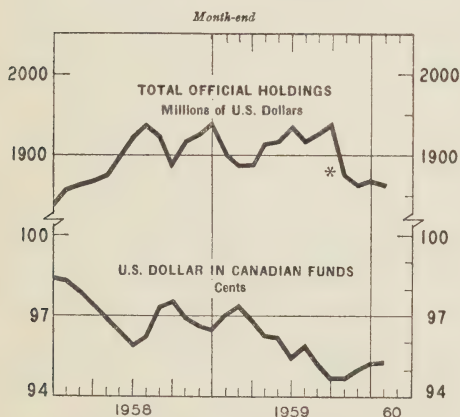
The net result of all transactions in Canadian common and preferred stocks was a net inflow of capital of \$142 million in 1959 as compared to \$115 million in 1958, with increases in net sales to the United States and continental Europe.

Changes in Canadian dollar holdings of non-residents and "Other capital movements (net)" as shown in the table on pages 80 and 81 record for the most part movements of private short-term capital. In 1959 these included changes in the amount outstanding of commercial accounts receivable and payable, in the foreign currency holdings of Canadians, in the net foreign assets of chartered banks, and in net borrowing abroad by certain other financial institutions. There was a substantial net receipt from these sources in 1959, nearly all in the first half of the year.

The value of the United States dollar in Canada rose from 96 7/16 at the end of 1958 to a high of 98 3/16 in February, declined fairly steadily to a low of 94 9/16 in November, and then firmed

slightly and closed the year at 95 7/32. Official holdings of gold and U.S. dollars fell from U.S. \$1,939 million at the end of 1958 to U.S. \$1,869 million at the end of 1959; this change was almost entirely due to a transfer of U.S. \$62.5 million to the International Monetary Fund on Oct. 1 which represented the gold portion of Canada's increased quota.

OFFICIAL HOLDINGS OF GOLD AND U.S. DOLLARS
AND EXCHANGE RATE



* On October 1, U.S. \$62.5 million, representing the gold portion of Canada's increased quota, was transferred to the International Monetary Fund.

FINANCIAL STATEMENT ►

BANK OF CANADA • STATEMENT

A S S E T S

	<u>1959</u>	<u>1958</u>
Foreign exchange— at market value		
Pounds sterling and U.S.A. dollars	\$ 41,030,477	\$ 55,171,186
Other currencies	146,420	146,078
	<u>\$ 41,176,897</u>	<u>\$ 55,317,264</u>
Cheques on other banks	\$ 145,547,390	\$ 96,375,308
Accrued interest on investments	\$ 25,995,824	\$ 28,111,958
Advances to chartered and sav- ings banks		<u>\$ 2,000,000</u>
Investments — at amortized values		
Treasury bills of Canada	\$ 305,853,111	\$ 35,942,726
Other securities issued or guaran- teed by Canada maturing with- in two years	\$ 514,536,500	245,182,572
Other securities issued or guaran- teed by Canada not maturing within two years	1,800,242,047	2,340,637,247
Debentures issued by Industrial Development Bank	58,607,742	52,917,274
Other securities — U.S.A. Government	18,522,311	38,495,990
	<u>\$ 2,697,761,711</u>	<u>\$ 2,713,175,809</u>
Industrial Development Bank		
Total share capital at cost	\$ 25,000,000	\$ 25,000,000
Bank premises		
Land, buildings and equipment— at cost less accumulated depre- ciation	\$ 10,878,656	\$ 9,795,652
Net balance of Government of Canada payments and collections in process of settlement	<u>\$ 21,238,081</u>	<u>\$ 14,295,801</u>
Other assets	<u>\$ 493,308</u>	<u>\$ 348,147</u>
	<u><u>\$ 2,968,091,867</u></u>	<u><u>\$ 2,944,419,939</u></u>

J. E. COYNE, *Governor*
Ottawa, January 21, 1960

E. FRICKER, *Chief Accountant*

ASSETS AND LIABILITIES

AT DECEMBER 31, 1959

(comparative figures at December 31, 1958)

LIABILITIES

	1959	1958
Capital paid up	\$ 5,000,000	\$ 5,000,000
Rest fund	\$ 25,000,000	\$ 25,000,000
Notes in circulation	\$ 2,020,525,198	\$ 1,998,046,299
Deposits		
Government of Canada	\$ 45,587,773	\$ 34,883,957
Chartered banks	636,981,802	662,696,930
Other	34,789,621	25,021,571
	\$ 717,359,196	\$ 722,602,458
Liabilities payable in pounds sterling, U.S.A. dollars and other foreign currencies		
To Government of Canada	\$ 42,251,227	\$ 75,998,717
To Others	7,768,089	7,922,651
	\$ 50,019,316	\$ 83,921,368
Bank of Canada cheques outstanding	\$ 149,191,317	\$ 108,046,826
Other liabilities	\$ 996, 840	\$ 1,802,988
	<u>\$ 2,968,091,867</u>	<u>\$ 2,944,419,939</u>

Auditors' Report • We have made an examination of the statement of assets and liabilities of the Bank of Canada as at December 31, 1959 and have received all the information and explanations we have required. We report that, in our opinion, the above statement correctly sets forth the position of the Bank at December 31, 1959 according to the best of our information and as shown by the books of the Bank.

ROSAIRE COURTOIS,
of Courtois, Fredette & Co.

W. R. KAY,
of Fred Page Higgins & Company

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 1959
(with comparative figures for the year ended December 31, 1958)

	<u>1959</u>	<u>1958</u>
Profit for the year	<u>\$74,011,728</u>	<u>\$88,631,680</u>
 Paid to the Receiver General of Canada for credit of the consolidated revenue fund	 <u><u>\$74,011,728</u></u>	 <u><u>\$88,631,680</u></u>

BOARD OF DIRECTORS



J. E. COYNE	OTTAWA <i>Governor</i> <i>Member of the Executive Committee</i>
J. R. BEATTIE	OTTAWA <i>Deputy Governor</i> <i>Member of the Executive Committee</i>
H. BARIBEAU	LEVIS, QUE.
J. T. BRYDEN	TORONTO, ONT. <i>Member of the Executive Committee</i>
F. FIELD, F.C.A.	VANCOUVER, B.C.
C. HEDLEY FORBES	FREDERICTON, N.B.
C. BRUCE HILL, M.C.	ST. CATHARINES, ONT.
W. A. JOHNSTON, Q.C.	WINNIPEG, MAN.
J. H. MOWBRAY JONES	LIVERPOOL, N.S.
S. N. MACEachern	SASKATOON, SASK.
L. PATRICK, C.B.E.	CALGARY, ALTA.
H. A. RUSSELL	ST. JOHN'S, NFLD.
A. SAMOISSETTE, O.B.E.	MONTREAL, QUE.
A. A. SCALES	CHARLOTTETOWN, P.E.I.



EX-OFFICIO

K. W. TAYLOR, C.B.E.	OTTAWA <i>Deputy Minister of Finance</i> <i>Member of the Executive Committee</i>
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OFFICERS



J. E. COYNE, *Governor*

J. R. BEATTIE, *Deputy Governor*

L. P. SAINT-AMOUR, *Deputy Governor*

L. RASMINSKY, C.B.E., *Deputy Governor*

R. B. MCKIBBIN, *Deputy Governor*

W. E. SCOTT, *Executive Assistant to the Governors*

L. F. MUNDY, *Secretary*

E. FRICKER, *Chief Accountant*

E. METCALFE, *Auditor*

SECRETARY'S DEPARTMENT

L. F. MUNDY, *Secretary*

P. D. SMITH, *Deputy Secretary*

C. H. RICHARDSON, *Deputy Secretary*

A. J. BAWDEN, *Assistant Secretary*

J. C. NESBITT, *Personnel Officer*

MISS M. K. ROWLAND, *Personnel Officer*

Currency Division: P. B. WOOSTER, *Chief*

J. U. RANGER, *Deputy Chief*

Public Debt Division: H. W. THOMPSON, *Chief*

H. S. HOLLOWAY, *Assistant Chief*

R. F. ARCHAMBAULT, *Assistant Chief*

RESEARCH DEPARTMENT

R. W. LAWSON, *Chief*

G. K. BOUEY, *Deputy Chief*

B. J. DRABBLE, *Assistant Chief*

G. E. FREEMAN, *Assistant Chief*

G. S. WATTS, *Special Assistant*

S. V. SUGGETT, *Industrial Research Assistant*

MISS H. COSTELLO, *Librarian*

SECURITIES DEPARTMENT

J. B. MACFARLANE, *Chief*

A. CLARK, *Assistant Chief*

D. J. R. HUMPHREYS, *Assistant Chief*

H. G. GAMMELL, *Toronto Representative*

T. G. BOLAND, *Montreal Representative*

FOREIGN EXCHANGE DEPARTMENT

W. A. CAMERON, *Chief*

P. WATT, *Montreal Representative*

W. G. JONES, *Toronto Representative*

AGENCIES



CALGARY F. J. WILKS, *Agent*

HALIFAX G. R. BONNER, *Agent*

MONTREAL A. HUBERDEAU, *Agent*

J. E. R. ROCHEFORT,
Assistant Agent

OTTAWA J. K. FERGUSON, *Agent*

REGINA W. D. T. SHORTREED, *Agent*

SAINT JOHN, N.B. E. L. JOHNSON, *Agent*

TORONTO R. J. LILLIE, *Agent*

A. J. NORTON,
Assistant Agent

VANCOUVER W. D. FARRELL, *Agent*

WINNIPEG E. T. W. DAVIES, *Agent*



SCHOOL OF BUSINESS
UNIVERSITY OF TORONTO
273 BLOOR STREET WEST
TORONTO 5, ONT.

5



BANK OF CANADA

**ANNUAL REPORT OF
THE GOVERNOR TO THE
MINISTER OF FINANCE**

AND STATEMENT OF ACCOUNTS

FOR THE YEAR 1960



CANADA

“**WHEREAS** it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion: Therefore, . . .”

—*Preamble to the Bank of Canada Act*

BANK OF CANADA

February 28, 1961.

The Hon. Donald M. Fleming, Q.C.,
Minister of Finance,
Ottawa.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act I am transmitting herewith my report for the year 1960, and a statement of the Bank's accounts for this period which is signed and certified in the prescribed manner.

Yours very truly,
J. E. COYNE,
Governor.

BANK OF CANADA
REPORT OF THE GOVERNOR
1960

The year 1960 began on a note of optimism regarding the rate of economic activity, with the cyclical upswing which began in 1958 still progressing amid numerous forecasts for its continuation throughout the year. During the first half of the year the combined volume of currency in circulation and total deposits of the chartered banks remained relatively constant at approximately the same level as during the previous year, which was some 10 per cent greater than that of early 1958. This monetary stability in the first half of 1960, as in 1959, was consistent with considerable variation in the distribution of bank credit among various categories of loans, investments and liquid assets and in levels of interest rates. Interest rates and bond yields showed a marked declining trend from levels reached around the end of 1959, until the end of the third quarter of 1960.

The total of bank deposits and currency in circulation began to increase in the third quarter, took a sharp upward movement at the beginning of October, and by the end of December was $5\frac{1}{2}$ per cent higher than at the beginning of the year. The downward movement of interest rates on securities was partly reversed between late September and late December, but was then resumed and has continued through January and February 1961.

The early hopes of a strong upward movement in economic activity throughout the year were not fulfilled. The gross national product for the second quarter showed a decline in the seasonally adjusted annual rate of more than 1 per cent in physical volume from the first quarter, which had been 1 per cent above the rate in the fourth quarter of 1959. Figures for the third quarter and preliminary estimates for the fourth quarter of 1960 show only slight increases from the second quarter rate. Notwithstanding the decline in over-all output in the second quarter, total employment continued to rise on a seasonally adjusted basis, but more slowly as the year went on, and the increase in employment did not keep

pace with the increase in the labour force — the number of persons desiring employment — with the result that the level of unemployment rose persistently after allowance for seasonal factors.

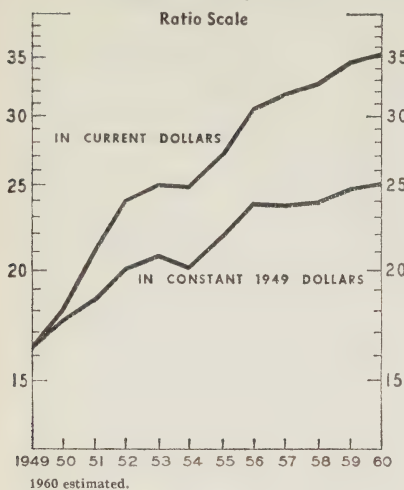
The upswing from 1958 thus lasted for about two years, as compared with about three years for the upswing of 1954-57 and nearly four years for the upswing of 1949-53. It clearly stopped some distance short of optimum levels of production and employment having regard to the growth in the labour force and in the physical capacity of some sectors of Canadian industry. Although the decline in activity in 1960 was less than in earlier postwar recessions, unemployment at the end of the year as a percentage of the labour force was greater on a seasonally adjusted basis than it had been at its highest point in 1958. It would seem that the conditions that developed in 1960 were only partly in the nature of another cyclical downswing. In part at least, developments in 1960 reflected more fundamental structural problems of a longer-term nature which have affected the level around which recent short-run cyclical movements have taken place.

The trend of unemployment in Canada has in fact been upward for the past eight or ten years, making allowance both for seasonal fluctuations and for the upswings and downswings of the business cycle. Unemployment in each such succeeding business cycle has been higher than in the preceding, at the peak and at the trough and on the average. Economic developments have not been of such a character as to raise employment in step with the increase in the labour force.

The chart on the next page shows the gross national product year by year from 1949 to 1960 both in current dollar value (which reflects the degree of price inflation over the period) and in physical volume, as measured in terms of constant (1949) dollars. The chart is drawn on a ratio scale, so that a straight line indicates a constant rate of change, and varying directions of the line indicate varying rates of change. A second chart shows the physical volume of gross national product per person employed and per head of population, and also personal income (before tax) per head of population. The charts on page 8 record changes in the major components of gross national expenditure.

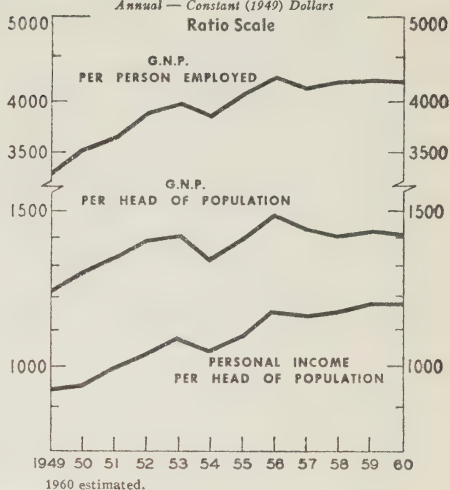
GROSS NATIONAL PRODUCT

Annual — Billions of Dollars



GROSS NATIONAL PRODUCT AND INCOME PER HEAD

Annual — Constant (1949) Dollars



It is evident that, except for brief spurts in the nature of over-expansion under boom conditions, the rate of increase in Canadian economic development has been slowing down for some years, and the inference must be that the underlying factors are also of long standing.

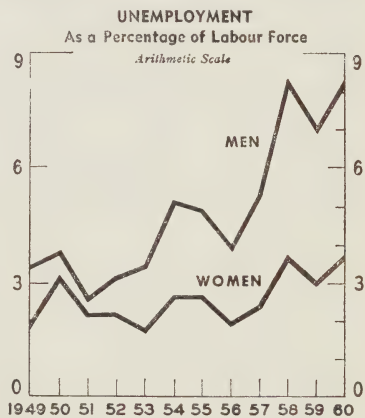
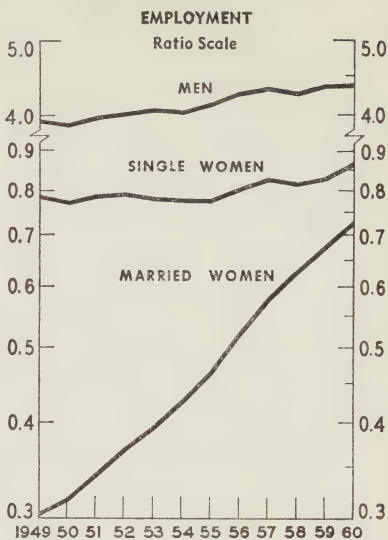
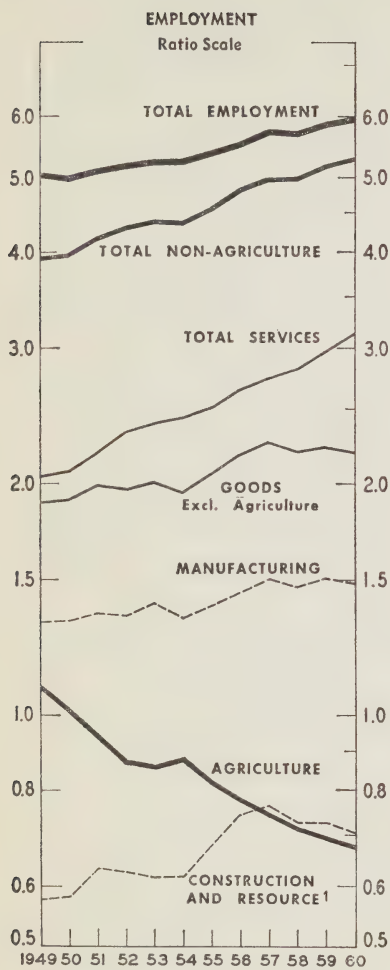
Certain trends in the labour force and employment are shown in the charts on page 6. One is the long-continuing shift from agricultural to non-agricultural pursuits, which has caused the non-farm labour force to grow faster than the total labour force. There were 1,080,000 persons employed in agriculture in 1949, or 21 per cent of the labour force. By 1960 the number was 675,000, or 10.5 per cent of the labour force. However, the absolute decrease in farm employment has been much less in recent years than earlier in the fifties, and it may not be of significant magnitude in future.

After some reduction in the early postwar years, the number of women in the labour force and the number of women employed have expanded since 1949 much more rapidly than in the case of men. Over the eleven years female employment rose by 510,000 or 47 per cent, while male employment rose by 435,000 or 11 per cent.

The unemployment ratio among women has been consistently lower than among men. Taking yearly averages, the number of

LABOUR FORCE DEVELOPMENTS

Annual Averages — Millions of Persons



women unemployed rose from 1.8 per cent of the female labour force in 1949 to 3.6 per cent in 1960, while the number of men unemployed rose from 3.4 per cent of the male labour force in 1949 to 8.2 per cent in 1958 and 8.2 per cent again in 1960.

It is thus predominantly in jobs for men that employment opportunities have failed to increase sufficiently to match the increase in the labour force. From 1949 to 1960 the number of men employed increased by only 63 per cent of the increase in the male labour force. Male unemployment increased by 37 per cent of the increase in the male labour force. The number of women employed increased by 93 per cent, and female unemployment by 7 per cent, of the increase in the female labour force.

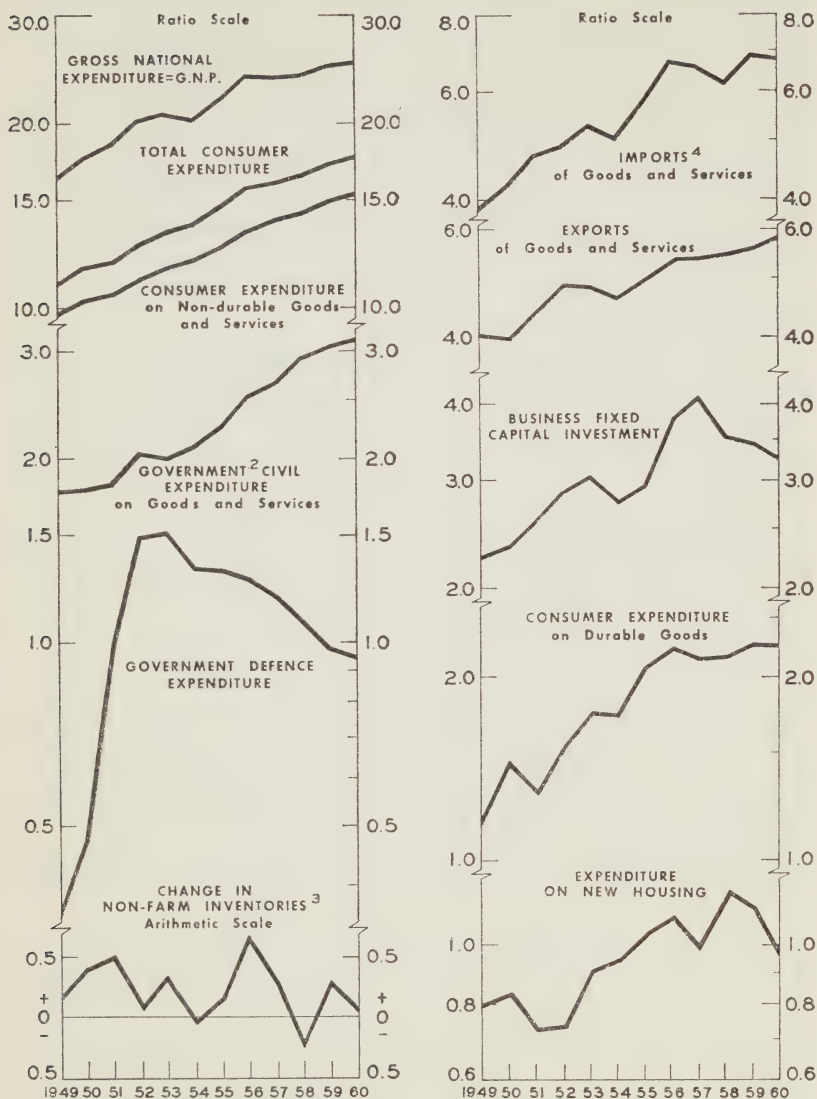
Another major feature of labour force developments has been the difference in trend between goods-producing industries with slowly rising or in some cases declining employment, and service industries where there has been rapidly rising employment (especially female employment) even in years of recession.

Including agriculture, the total number employed producing goods in Canada declined by 110,000 from 1949 to 1960 (yearly average figures). Excluding agriculture, employment in all non-farm goods-producing industries (a term which includes the construction industry) rose by 290,000 or 16 per cent. In manufacturing — which includes employment in predominantly export industries such as pulp and paper mills, lumber mills and mine concentrators and refineries, as well as employment in domestic industries competing with imports — total employment rose from 1,320,000 in 1949 to about 1,500,000 in 1957 and declined to 1,480,000 in 1960. The increase over the eleven years was 160,000 or 12 per cent.

By contrast, employment in the service industries rose by 1,070,000 or 53 per cent. Even in the recession years 1954 and 1958 employment in the service industries averaged 2 per cent above 1953 and 1957, respectively, and 1960 showed a rise of 5 per cent over 1959. Over the eleven years 1949-60 there were increases of 400,000 (50 per cent) in trade and finance, 70,000 (19 per cent) in transportation, storage and communications, and 600,000 (70 per cent) in all other services, which include the hotel,

COMPONENTS OF GROSS NATIONAL EXPENDITURE: 1949-1960

Annual¹ — Billions of Constant (1949) Dollars



1. 1960 estimated.
2. All levels of government.
3. Change from year-end to year-end.
4. Deducted in arriving at G.N.E.

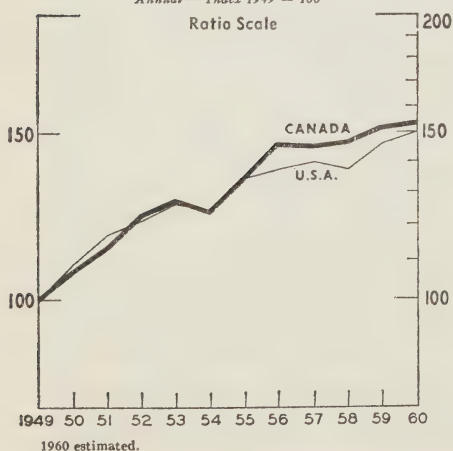
entertainment and catering trades, the professions, various personal services and business services, as well as education and health services and government services.

Undoubtedly one important reason for the slow rise of employment in goods-producing industries, and the decrease in the case of agriculture, has been the great input of capital in the form of machinery and equipment — mechanization and automation. Unfortunately for employment in Canada, a very high proportion of such machinery and equipment has been imported from other countries, instead of being researched, developed and produced in Canada and providing a “growth industry” for Canada in terms of employment and technological progress. The net import into Canada in 1959 of trucks, farm machinery, electrical machinery and other kinds of machinery and equipment and parts — the excess of imports over such limited exports as we can achieve in these fields — was valued at \$1,020 million (at wholesale or manufacturer’s prices and before addition of customs duties and excise and sales taxes where applicable). Of this total, net imports of such goods from the United States accounted for \$890 million.

A comparison of Canadian developments with developments in the United States indicates that the growth of gross national

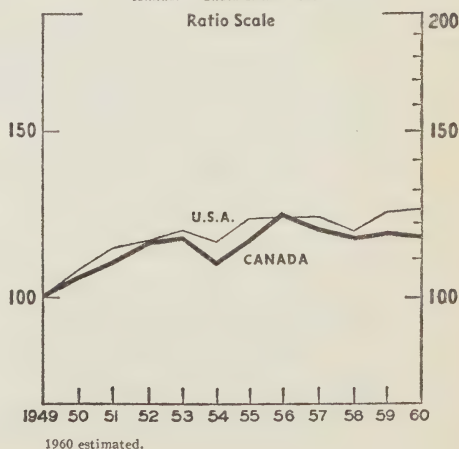
**GROSS NATIONAL PRODUCT
IN CONSTANT DOLLARS**

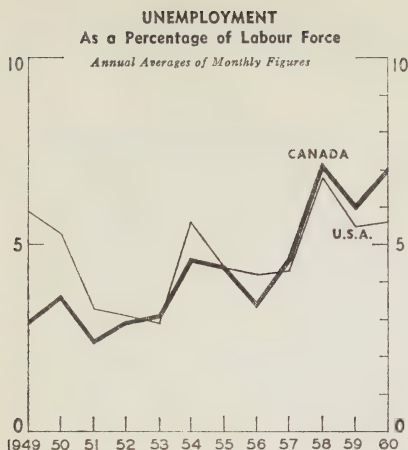
Annual — Index 1949 = 100



**GROSS NATIONAL PRODUCT
IN CONSTANT DOLLARS
PER HEAD OF POPULATION**

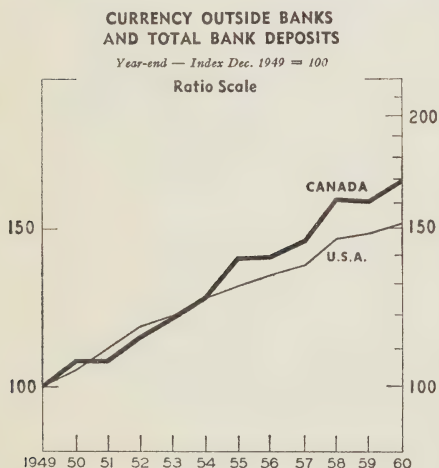
Annual — Index 1949 = 100





product in Canada slightly exceeded that of the United States for the period as a whole, although after 1956 the rate of growth slowed down more in Canada than in the United States. Throughout the decade the unemployment ratio trended upwards on a steeper slope in Canada than in the United States, as is shown in the inset chart.

These developments occurred in a period when (1) the rate of physical investment in new plant and equipment (including government works and facilities) was every year substantially higher in Canada than in the United States, (2) Canada drew heavily on the United States and other countries to augment its own supplies of goods and services, whereas the United States consistently made available to other countries by



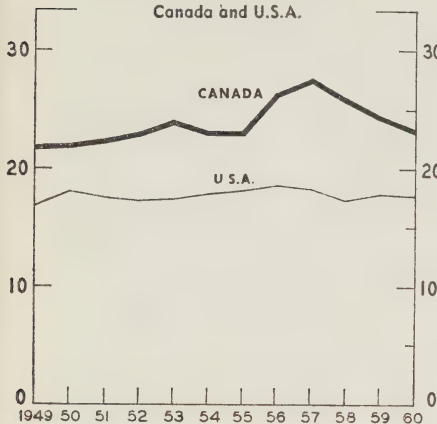
gift or loan a part of its own production, (3) Canada received a large inflow of capital, technical equipment and "know-how" from the United States and other countries, (4) Canada had a substantially greater expansion of its money supply than the expansion in the United States, and (5) in the second half of the decade Canada had a substantially greater degree of deficit finance by governments than the United States.

So far as capital expenditures are concerned the level in Canada relative to gross national product has been extraordinarily high.

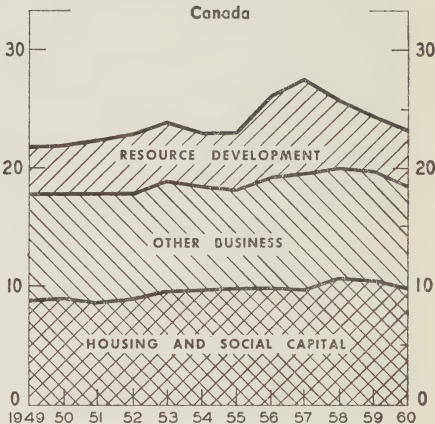
The comparison with the United States is shown in the chart below, and the companion chart indicates the great intensity of expenditure on resource development during the 1955-57 boom.

CAPITAL EXPENDITURE AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

TOTAL CAPITAL EXPENDITURE
Canada and U.S.A.



DISTRIBUTION OF CAPITAL EXPENDITURE
Canada



The initiative for this wave of development of Canadian resources came in very large part from outside Canada and was based on a view, which was furthered by the Korean War and found expression, for example, in the Paley Report, that there would be a great increase in world demand for primary commodities of the kind produced in Canada, e.g., iron ore, uranium, non-ferrous metals, pulp and paper, oil and gas and various basic chemicals, and that other sources of supply would be inadequate, unreliable or vulnerable. It is now apparent that the assumptions on which the huge Canadian investment programme rested will be realized much more slowly than was then expected. Total world demand for the raw materials produced by Canada's primary industries is growing, at a moderate rate, but non-Canadian sources of supply have also been expanding. The capacity developed in Canada's major resource industries during the 1955-57 boom is not being fully utilized.

In addition, so much effort went into preparing for a massive increase in primary commodity exports, so much was thought to

be promised by such development, that other lines of economic development suffered. Conditions in Canada were not very favourable to the growth of research, production skills and physical facilities for the more advanced types of industrial activity and the production in Canada of machinery and other manufactured goods of the kind and quality that Canadians want to buy, at appropriate prices. The extraordinarily high level of investment in resource development at that time, and in the ancillary construction industry, attracted capital, physical resources and manpower, and public interest and concern, away from other industries, raised domestic costs of production, and made it more difficult for secondary industries to face competition from imports. By the time the boom was over the ability of the Canadian economy to employ its labour force in meeting its own growing requirements for capital equipment, manufactured goods and various technical services, and to compete in export markets, was perceptibly weakened. It would appear that our present economic problems derive in part at least from excessive concentration on physical investment and unbalanced investment in earlier years.

The fact that very much larger capital investment in physical plant and equipment in Canada than in the United States did not produce a commensurately greater increase in production of goods and services in Canada illustrates a general point which I think should be taken into consideration in public discussion of these matters, which is that economic growth, in the sense of growth of total output, is not the same as, and does not necessarily accompany, "growth" in the sense of having a high level of physical capital investment. In principle, there could be just as much growth in total output with a lower capital investment in the economy as a whole, although the nature of production would presumably be somewhat different.

In particular, investment in human capital can at times do more for growth of output than investment in physical capital. Improved education in general, higher education for a larger proportion of those leaving high school, technological development and training, scientific research, and the development of skills and aptitudes of the widest diversity as required in modern industry, can produce

very marked increases in productivity and in total production. Such an improvement in human capital can help to develop new forms of industry and rapid expansion in the advanced technologies more effectively than can be achieved merely by straining for more and more physical investment whether provided by foreign investors or otherwise.

It was during the period under consideration, from 1949 to 1960, that the net amount of foreign investment in Canada quadrupled. At the end of 1949 the value of all kinds of foreign investment in Canada, both in resources, in secondary industries and other forms of business enterprise, and in the securities of Canadian governments and corporations, exceeded total Canadian investments abroad by the amount of \$4 billion. By the end of 1960 this sum had grown to about \$17 billion. The view that Canada could not have enjoyed sufficient economic growth without this vast increase in foreign investment in Canada, and that the Canadian standard of living would have been much lower if we had not had this vast increase in foreign investment in Canada, appears to me very questionable. The nature of our development might have been somewhat different, but I believe a higher average rate of employment could have been maintained, and more growth of total employment and of production of goods and services in Canada could have been achieved with much less reliance on a net increase of foreign investment in Canada if Canadian policies had aimed at such a target in the past, and could be achieved by Canada in the future if Canadian policies are in future aimed at such a target.

One of the most significant differences between developments in Canada and the United States was in relation to the international balance of payments of the two countries. In every year but one since the war the United States has had a surplus of exports of goods and services over its payments for imports of goods and services, excluding capital transactions and foreign aid. Canada, on the other hand, has in every year since 1952 but particularly from 1956 on had a large net deficit on goods and services (including payments of interest and dividends on foreign investments in Canadian industries, resources and securities), accompanied by further large-scale

imports of capital. No other country of comparable maturity has ever had anything like so large a deficit sustained over so many years.

In years of relatively high employment in Canada a large deficit in the balance of payments and the corresponding large increase in our foreign debt or in foreign investment in Canada should, I think, be regarded as an indication of excessive total spending on the part of Canadian business enterprises, individuals and governments combined, rather than (as some have urged) as a valuable and welcome addition to the total resources available for use in Canada in the year in question. Judgment in any specific situation must of course have regard to the particulars of that situation and one of the important tests must be whether the additional resources are in fact used in a way that will be followed by larger sustained increases in Canadian production and improvement of our balance of payments. Up to the present, the deficits in question do not appear to have been followed by commensurate increases in production or in our ability to pay our way in the world. At a time of relatively high unemployment in Canada, it is difficult to avoid the conclusion that the continuing very large deficit in the balance of payments is not only disadvantageous in itself but is indicative of an excessive capital inflow as well as structural weaknesses in the Canadian economy which result in excessive aggregate spending on goods and services provided from abroad to the detriment of the production of goods and services of a similar character in Canada.

It seems clear that the recent high levels of unemployment in Canada do not arise from a deficiency of total spending by Canadians, or of spending for capital purposes. A relatively very large fraction of our gross national expenditure has, however, been spent directly or indirectly on balance for imported goods and services, and has to that extent failed to provide employment in Canada.

In a sense there has been a diversion of purchasing power from domestic production to foreign production. During the last three years the average annual ratio of unemployment to the labour force has ranged between 6 per cent and 7 per cent, while the excess of our payments abroad on current account over our receipts from

abroad on current account has in each of these years amounted to more than 3 per cent of gross national product. (The figure would average 4 per cent in these years if the gross national product were valued net of indirect taxes as in the case of imports and exports.) If appreciably more of the total spending by Canadians had on balance been on goods and services produced in Canada the level of unemployment would have been much less than that which has actually been experienced.

Analysis of our situation seems to me to indicate that the approach to higher employment and output should be through measures designed to reduce the large deficit in our current account balance of payments, and through increases in spending of a selective character likely to increase production in Canada, rather than through measures designed to raise the level of total spending by Canadians. I am sure that there are many more possible ways of setting up incentives directed towards these goals than is generally realized. One would hope for the most imaginative and thorough canvass of the possibilities and widespread discussion by those who are interested. Ultimate decisions must rest with the appropriate governmental authorities in accordance with their best assessment of what the national interest and welfare requires.

Among the problems that would have to be faced would be that of moderating the rate of net capital inflow into Canada. The deficit in the current account of the balance of payments and the net capital inflow (including changes in official exchange reserves) are necessarily equal, and the one cannot fall without the other declining equally. An important factor in the problem is the strength of the pressure for foreign capital to flow into Canada. Inflows for direct investment in Canada and from the net sales of stocks to non-residents have been large and persistent. If account is also taken of the volume of profits from investment that accrue to non-residents but that are retained and re-invested in Canada — an item which is not included in the net capital inflow in the official Canadian balance of payments statistics but which increases non-resident owned investment in Canada — the total of equity-type capital inflow into Canada appears recently to have approached a rate of \$1,000 million a year. The volume of this type of capital

inflow is relatively insensitive to differences in the levels of interest rates between Canada and other countries or changes in the foreign exchange value of the Canadian dollar, and would, if anything, be greater with increased economic prosperity in Canada.

Examination of past developments and of possible causes of present difficulties is only of value as an aid to deciding on what measures might seem most effective to deal with present difficulties. I have urged on a number of occasions that there are serious structural distortions and inadequacies in the Canadian economy which have been developing for many years and which can only be corrected by utilizing various tools of economic policy on a broad front. Monetary policy cannot have much effect on such basic economic problems. On the other hand, the objectives of monetary policy are the same as the objectives of general economic policy and are not in conflict with them.

The goals of full employment, sustained economic growth, stable prices and a sound currency must all be pursued simultaneously. It should not be necessary — were it not for rather extreme statements that have appeared in some public discussion of these matters — to remark that the Bank of Canada is not in any way opposed to the idea of full employment, and does not operate with a view to restricting economic growth or preventing increased employment in the supposed interests of monetary policy or of anti-inflationary endeavours.

The seeking of full employment, the overcoming of unemployment by non-inflationary means, must be for all of us an economic objective of the very highest priority. We should not allow exaggerated ideas about the influence of monetary policy to distract us from pursuing outside the monetary field the most practical and effective measures to ensure the restoration of a high level of employment and the reduction of unemployment to the minimum level. Equally, we should not let the sound administration of monetary policy and public acceptance of a sound monetary policy be jeopardized by natural concern about a high level of unemployment which has not been caused by monetary policy and is not curable by monetary policy.

Large-scale unemployment is an indication of failure on the part

of all of us collectively to make the most effective use of the resources of modern technology and social organization. When the economy as a whole operates at less than full capacity, we are not producing the maximum possible supply of goods and services for use today, either for consumption or for increasing our capacity to provide a higher rate of production and a higher standard of living tomorrow. The nation as a whole suffers real economic loss, and it is avoidable economic loss, in addition to the personal loss and frustration of those particular persons who are seeking work and unable to find it. It seems to me only common sense, when considering the economic, social and personal problems of unemployment, that no price is too great for the community as a whole to pay in order to achieve full production and reduce unemployment to the lowest possible level. (It should be unnecessary to explain that I am speaking of an economic price.) The practical question is, what are the best measures to take, and how is the cost of those measures to be shared by the various groups and individuals that make up the community.

A central bank must be opposed to inflationary methods which involve excessive monetary expansion. But the adoption of any policy or any combination of policies directed towards establishing and maintaining full employment, and maintaining a high rate of steadily continuing economic growth without inflation, is not in any way prevented or limited by the central bank or by a sound money policy. There is no financial obstacle to the carrying out in a non-inflationary way of any programme which is physically possible, if the community is willing to make the appropriate arrangements and put into effect whatever changes in the use of physical resources and changes in the distribution of real incomes may be involved in such programmes. These are the real factors involved, which cannot be avoided, whatever method be favoured to deal with them. Inflation itself is one method of inducing changes and adjustments in the use of physical resources and in the distribution of real incomes — but there must be more equitable and efficient ways, better ways of sharing the real costs and ultimate benefits of full employment policy and other constructive economic and social policies.

Role of Monetary Policy

The primary function of the central bank is to provide the chartered banks with a volume of cash reserves adequate to support an appropriate level of bank credit and deposits. The volume of cash reserves and of related bank assets and deposits will vary in the short run, mainly for seasonal reasons, and also in the long run, where the trend is upward. The rate of expansion of credit and the timing of such expansion will always be matters of judgment, both for the central bank and for the chartered banks. At no time since the Bank of Canada was established in 1935 have the total lending resources of the chartered banks, or the stock of money as defined to include both currency and bank deposits, decreased by any significant amount for any significant period. There have been times when the rate of increase was moderate or negligible, and other times when it was rapid.

The stock of money or the corresponding factor of the size of the total assets of the banking system is not the only element affecting the level of interest rates or changes in various interest rates from time to time. With any given level of the total stock of money interest rates may rise or fall depending upon the relative strength of the demand for funds on the part of borrowers and the willingness of lenders to make loans and investments. For present purposes I will leave aside the controversial question as to whether a change in the rate of interest will induce a change in the proportion of their income which people will save, although I find it difficult to agree with the assertion of those who say there is no such effect. Of greater immediate importance is the effect of changes in the rate of interest on the willingness of people presently holding deposit balances to lend them to others who wish to carry on enlarged spending programmes.

Economists have often differed in their views as to the influence which changes in interest rates have on the plans of borrowers and spenders; whether, for example, lower interest rates encourage major increases in inventories or make a major contribution to business decisions to expand programmes for new investment in physical plant and equipment. There is by no means a clear consensus on this subject. Some commentators have, however, pro-

posed that a substantial further reduction of interest rates, particularly yields on long-term bonds, should be the over-riding objective of financial policy in Canada at the present time. In some cases the proposal may involve keeping interest rates low in times of boom as well as recession but it seems usually to be related to a view that larger swings in interest rates both down and up at appropriate times would be desirable as a means of moderating recessions or booms in economic activity. Variation of interest rates has been urged both as a means of changing conditions in domestic financial markets, and as a means of moving the exchange rate, at least to parity with the United States dollar. One published proposal is that Canadian interest rates be put at the same level as United States interest rates. All sincere proposals should receive careful appraisal along with the other considerations which may be relevant and important.

The basic reason why interest rates are lower in the United States than in Canada is that the total level of borrowing, the aggregate demand for funds by governments, business and individuals combined, is less (proportionately) in the United States than in Canada. Reducing Canadian interest rates, particularly on government securities, nearer to or all the way to the same level as in the United States would be intended among other things to prevent pressure on the Canadian exchange rate which results when large-scale inflows of capital take place. For provinces and municipalities to borrow abroad is hazardous to themselves and undesirable in the national interest. In so far as capital inflows are due to borrowing abroad by Canadians, it would be preferable to deal with the problem by encouraging Canadian entities to borrow at home rather than abroad, with the effort more proportionate to the desired result, rather than attempting to make a substantial reduction in the entire interest rate structure in Canada in order to change the source of what is only a small part of total borrowing by Canadians. Moreover, the other large element in the capital inflow, that is, the inflow of foreign capital for direct investment or equity investment in Canada would not be materially affected by lower interest rates in Canada. There are ways to influence the inflow of capital for direct investment outside the monetary field and in the direction of

providing relatively more favourable incentives, opportunities and facilities for Canadians to invest in Canadian stocks and Canadian industrial development.

The arguments advanced for larger swings in long-term interest rates at rather short intervals, whatever their theoretical justification, ignore very important practical effects on the market for government bonds and other debt instruments. The fluctuations in bond prices which we have experienced since the war at relatively short intervals as the business cycle changed from upswing to downswing to upswing again, have been large enough to be seriously disturbing, and it is much to be desired that such fluctuations be moderated, not aggravated, in future. If fluctuations in interest rates and bond prices were to be even larger, investors would see little attraction in purchasing in times of low interest rates, bonds which could be bought much cheaper a year or two later, and the operation of the free market investment mechanism would be seriously impaired.

A lower level of interest rates at the present time is being urged in current discussion with a view to encouraging the desire to borrow — to increase total borrowing and induce more of such borrowing to be attempted in Canada rather than abroad. It will not, of course, encourage the desire to lend, at least on the part of non-bank lenders, but if anything the reverse. (As already stated, I am speaking of changes in willingness to lend funds already in existence or coming into the hands of savers through normal rates of saving — not changes in the rate of new saving itself.) As a practical matter, the level and structure of interest rates, and prospects for some degree of stability, must be such as to induce non-bank investors to use their funds to buy Government bonds and other securities in large volume every year and over a period of years, including the large amounts required to be raised to pay off maturing issues, as well as new issues. The size of the public debt in the post-war world and its continuing annual increase, are so great that monetary management must take account of the practical problems of maintaining a sufficient market among non-bank investors for the annual maturing amounts of such a debt and further additions to the debt.

If reducing interest rates is intended to encourage an increased

volume of borrowing in Canada, there must be an equivalent increase in lending. If, however, lower interest rates would reduce the willingness of non-bank lenders to lend existing funds, the desired increase in the flow of loanable funds would have to come from the banking system, which would also have to make up for the reduction in the flow of loanable funds from other lenders discouraged by reduced returns and the expectation of large fluctuations in bond prices to be induced from time to time by a more aggressive official policy with regard to variations in interest rates.

The question is whether it would be desirable to reduce the area of private lending and subordinate the operations of the banking system to such a purpose, involving larger increases of chartered bank assets and deposits in some periods than have occurred before (and presumably also in some periods appreciable contractions, which have not occurred before). The answer is surely, No — the objective of a satisfactory flow of funds in the Canadian capital market can be achieved in other, less disruptive ways.

Serious trouble has developed on several occasions since the war, when expansion of the money supply became so great as to cause a very large increase in the more liquid assets of the banks. The banks are naturally desirous of replacing such low-yielding assets with other loans and investments as opportunity offers. Within reasonable limits, this is a desirable way of keeping the banking system flexible and dynamic. Beyond reasonable limits, however, it leads to excessive credit expansion during periods of strong economic activity, heavy sales of government securities by the banks, and serious disturbance of the market for all kinds of bonds.

On balance, I do not believe it is desirable for reasons of interest-rate policy to expand the assets of the banking system beyond the size needed to ensure an adequate flow of credit of the kind normally expected to be provided by banks, with a reasonable margin for flexibility and growth. If borrowing requirements of a capital nature are not excessive in total but tend to exceed the flow of funds available from non-bank lenders at existing levels of interest rates, plus a reasonable expansion of bank assets, the soundest solution is for borrowers to pay such rates of interest and offer such kinds of

securities as will attract additional funds out of inactive deposits, and for all concerned to encourage the growth of institutions which will assist the process of moving into desirable fields of longer-term investment funds now held by potential investors (in very large sums in the aggregate) which are not presently invested by them but held in idle bank deposits. There is scope for large-scale expansion in the market open to credit-worthy borrowers if suitable means can be adopted for achieving through the free market mechanism more effective utilization of the existing stock of money.

To recapitulate, I am convinced that to engage in further large over-all monetary expansion in an attempt to drive down interest rates generally, with or without the motive of thereby reducing the inflow of capital from abroad, is an unsound and dangerous approach and would prove to be an ineffective approach, to the problems of the exchange rate, of the recession, and of achieving more consistent economic growth. Ensuring an adequate flow of capital funds to borrowers can under the circumstances which exist best be achieved by measures which do not require the whole level of interest rates to be further reduced by a substantial amount through the medium of large-scale over-all monetary expansion. It is not necessary, and is not desirable, to swing the whole apparatus of monetary policy with a view to overcoming a deficiency from time to time which amounts to only a fraction of the total borrowings of these entities, and a still smaller fraction of the entire flow of capital funds in the economy. More lending and investment of private funds by non-bank investors is the sound and desirable approach to problems of the supply of capital funds in Canada.

Many requirements other than having an appropriate level of bank cash reserves, and of total bank deposits and assets, and an appropriate level of interest rates, must be met in order that the economic system may work satisfactorily. As a practical matter, one must recognize that serious harm could be done by attempting to offset, by means of general monetary action, economic maladjustments requiring other types of remedial action, public or private. Monetary expansion may play a part when it occurs in conjunction with a broad sweep of other programmes of a more specific kind directed towards solving the problems in question. By itself, how-

ever, the creation of more and more money could do little toward achieving the objective. Moreover, while the central bank can stimulate an increase in the total of bank deposits and bank assets it cannot usually influence the allocation of the increase towards any particular industry or sector of the economy, to local governments or to particular regions; the actual distribution of the increase will depend on many factors which are outside the field of the central bank.

The emphasis which is placed from time to time on the limitations of monetary management by those who are engaged in central banking is based on concern for the healthy vigour of the economy; it is not a sign of an uncooperative spirit or a desire to create difficulties. The danger these days is not that the positive and constructive possibilities of money creation will go inadequately recognized or inadequately exploited, but that excessive faith in its curative powers will lead to its unrestrained use while more searching diagnoses will be delayed and more effective remedial measures outside the field of central bank action will go untried in the easy-going belief that they are not necessary.

Central bankers throughout the world are, I think, unanimous in feeling that people have come to expect far too much of monetary manipulation both in counteracting strong inflationary forces and in promoting sound economic growth and overcoming recession. The provision of money and credit and capital is not enough. In addition to the many important factors in the field of private business and the activities of private individuals, it is the whole field of public policy which must be utilized, not just the narrow field of monetary policy, in order to achieve desirable economic and social goals. If I may quote from a recent speech by the Governor of the Bank of England, "... A theme which I have myself argued for many years past (is) that monetary policy cannot cure all ills, and that it is a great mistake to expect it to carry loads which should be carried in other fields of Government policy." Lord Cobbold was speaking in this context about the problems of restraining the excesses of a boom, but his theme applies with even greater force to the problems of overcoming recession and promoting a satisfactory rate of sustained economic growth.

The External Economic Environment

By the beginning of 1960, economic activity in the world as a whole had reached a very high level. Some increase in production occurred in the first half of the year, but the rate of increase was less than in 1959. By mid-year, industrial production in the industrial countries reached a peak about 25 per cent above the low point of April 1958.

The recovery from the recession of 1957-58 began somewhat earlier in North America than in the overseas countries and ceased at a time when economic activity overseas was continuing to expand. Overseas, the first signs of a levelling-off became apparent in the United Kingdom where industrial production stopped rising in April. Elsewhere production continued to grow, although the rate of increase tended to slacken in Western Europe as one country after another approached the full utilization of its productive potential.

The expansion of 1958-60 was larger and produced more evidence of pressure on resources in the overseas industrial countries than in North America. In Europe and Japan, a shortage of labour developed, industrial capacity was fully utilized, investment programmes were greatly expanded and large backlogs of orders for capital goods built up. In North America, these symptoms of boom have been either absent or much less pronounced and the upward trend in prices and costs appears to have moderated. Wage rates rose quite rapidly in 1960 in the overseas countries and expectations of price increases appeared to be more commonly held there than in North America. These contrasts have been reflected in the patterns of external trade, and trends of interest rates, to which I shall refer later.

In the United States the normal processes of expansion, which were checked by the steel strike in 1959, did not succeed in reasserting themselves to the extent that most observers had expected a year ago. The upsurge in business activity following the four-month strike carried industrial production and total real output to peak levels in the early months of 1960, but much of this increase in output was directed to filling depleted stocks and by mid-year the expansion of over-all activity had come to an end. Inventory

accumulation reached a seasonally adjusted annual rate of \$11.4 billion in the first quarter but slackened thereafter, and by the fourth quarter inventories were being liquidated at a \$3 billion annual rate. A decline in outlays on new housing and in business fixed investment, the latter associated with a fairly sharp decline in corporation profits, added to the contractionary forces during the latter half of 1960. However, final demand rose throughout the year in contrast to the declines which occurred in the 1957-58 recession; in both periods, governments increased their expenditures on goods and services, but business fixed investment declined much less in 1960 than in the previous recession, exports and the balance of payments on goods and services improved and consumer expenditures held up better. Even so, the rate of increase of final demand was insufficient to offset the effect on output of the substantial inventory adjustment, and total output declined by one per cent from the second quarter to the fourth. Unemployment, which did not fall below 4.8 per cent of the civilian labour force in the expansion phase of the cycle, began to rise on a seasonally adjusted basis in the second quarter of 1960 and reached a rate of 6.8 per cent in December.

The Federal Government's cash budgetary position shifted from a deficit of \$8 billion in 1959 to a surplus of \$3 billion in 1960. Commercial bank loans increased by about half the increase in 1959 and the banks added to their holdings of Government securities. Interest rates fell in the first half of the year and showed relatively little change in the second.

As the year 1960 opened in the United Kingdom, the earlier rise in exports and the upsurge in consumer spending on cars and other durables were stimulating a large build-up of inventories and a boom in fixed investment. Following the increases in production and employment, the labour market became distinctly tight early in 1960 and a number of industries in a number of important regions encountered considerable difficulty in expanding their labour force. Some physical shortages developed, unfilled orders increased and as prices began to move upwards concern was widely expressed lest wage increases should exceed the increases in productivity. The balance of economic policy shifted in the direction of restraint, and financial conditions tightened. In April, hire-purchase controls

which had been lifted in 1958 were reimposed, and the Bank of England used for the first time the new technique of calling for Special Deposits from the banks with the purpose of reducing their liquidity.

After April, production held steady, neither rising further in the aggregate, nor falling significantly until late in the year. Operations had reached capacity in a number of industries, and as the year went on difficulties were encountered in the export and home markets by producers of cars and other consumer durables.

The trade balance of the United Kingdom deteriorated in 1960 as imports rose and exports declined. The very high levels of activity in the economy contributed to this development, the rise in imports being undoubtedly due in part to the build-up of material stocks, and to the investment boom, while supply difficulties and lengthening delivery dates influenced the performance of exports. Other factors have also been present including the removal of discriminatory restrictions on imports from North America both in the United Kingdom and in third markets, and the competitive impact in the United States market of compact cars produced in the United States. The over-all current account balance swung from a surplus of £139 million in 1959 to a deficit of more than £100 million in 1960. Even though the normal outflow of long-term capital from the United Kingdom continued, and substantial repayments were made to the International Monetary Fund, exchange reserves increased as a result of the massive inflow of short-term capital attracted by higher short-term interest rates than those in the United States, Canada, and some other countries.

Production in the principal countries of Continental Europe has grown rapidly in recent years and the expansion continued in 1960. With the demand for both consumer and investment goods insistent, production rose in most instances as rapidly as growing capacity permitted. The pressure on resources has been particularly evident in Germany where unemployment dropped far below the level of unfilled job vacancies in spite of a large influx of workers from other countries, and orders for capital goods outstripped the capacity of manufacturers to supply them. The German trade surplus continued at a high level, and rising interest rates and at times specula-

tion on the possibility of an increase in the exchange value of the deutsche mark attracted very large amounts of foreign capital in spite of efforts to check the inflow. German foreign exchange reserves rose by more than \$2 billion in the year to a level in excess of \$7 billion.

High world production of primary commodities kept their prices weak in 1960 in spite of the high level of industrial production in the world economy, and by year-end commodity price indexes had reached levels lower than at any time since the Korean War. A pattern of declines in 1960 following advances in 1959 is evident over a wide range of industrial materials such as textile fibres, base metals, hides and rubber. Further reductions occurred in petroleum prices during the year and some foodstuffs including butter and cocoa have also been weak, while cereals and coffee remained in surplus. In general the weakness in commodity prices can be attributed to the expansion of supplies, due in some cases to favourable weather conditions but more fundamentally to the growth of productive capacity both for natural products and their manufactured substitutes.

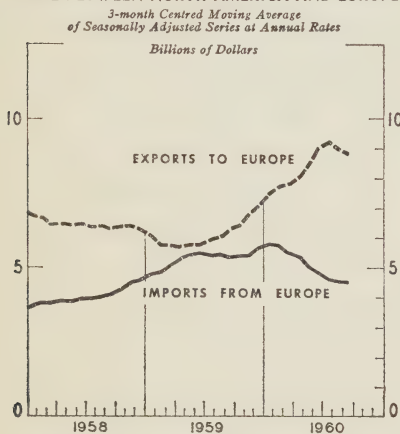
While the industrial countries benefited from the decline in commodity prices which contributed to the stability of their internal price levels as well as favouring their international terms of trade, the high level of industrial activity in 1960 affected primary producers by enabling them to secure a larger volume of sales even if at somewhat lower prices. There has of course been enough diversity in the commodity markets for the various producing areas to have been affected differently. Latin America, which is heavily dependent on coffee and oil, has suffered a continued decline in export prices for some years, and in 1960 a number of important countries in this part of the world restricted imports severely. Australia and New Zealand experienced a sharp decline in export prices in 1960, as wool, butter and base metals moved down from their earlier highs. Their exchange reserves which were high in 1959 tended to decline in 1960 as the growth of imports, stimulated by rising domestic incomes and measures of trade liberalization, outstripped the more static level of export earnings. Such products as tea, jute and tin which are important to the newer Commonwealth countries

of Asia were stronger in price than most other commodities and rubber prices were unusually high prior to their sharp fall in the second half of 1960.

The value of goods entering the channels of world trade was more than 10 per cent above the record 1959 level, but as in the case of industrial activity the rate of growth slowed down in the course of the year and may indeed have levelled off. There was a continued and massive growth in trade among the countries of Europe including the United Kingdom. During the first ten months of 1960, the value of intra-European trade was more than 20 per cent above the same period of 1959 and an even larger increase, amounting to more than 30 per cent, occurred in trade among the six member countries of the European Economic Community.

No significant gains were recorded in North American trade with Latin America or in trade between Canada and the United States; Canadian exports to the United States were lower in 1960 than in 1959 and Canadian imports from the United States were about the same.

TRADE BETWEEN NORTH AMERICA AND EUROPE[†]



[†]Statistics prepared by O.E.E.C. relating to trade of member countries.

On the other hand, there was a large improvement in the balance of North America's trade with Europe and an increase in North America's share of other markets outside the Western Hemisphere. As the inset chart shows, the improvement began in the second quarter of 1959 when North American exports to Europe turned upwards and continued strongly during 1960 while imports from Europe were falling.

The improvement in North America's balance of trade with Europe between the second quarter of 1959 and the third quarter of 1960 amounted to about \$4 billion at annual rates. In the same span of time, North America's balance of trade with other countries

improved by \$1 billion, very much more than Europe's improvement with these countries; large increases occurred in North America's exports to Sterling Area countries and Japan. These developments have provided support to the North American economies and reduced the size of the contractions in output which might otherwise have taken place.

United States merchandise exports rose 20 per cent between 1959 and 1960, while Canadian exports rose only 5 per cent over-all due to the decline in Canadian exports to the United States, which constitute more than half the total. Thus, the United States trade balance improved much more than that of Canada in 1960, and the total balance of United States transactions in goods and services including military expenditures abroad changed from a negligible figure in 1959 to a surplus of nearly \$4 billion in 1960. The continued loss of gold and the increase in foreign holdings of United States dollar assets — together amounting in 1960 as in 1959 to \$3.8 billion — was in 1960 more than matched by increased American holdings of foreign assets. The so-called "deficit" in the United States balance of payments (shown in the table on the next page as Decline in recorded "reserves") would indeed have been relatively small had it not been for the large outflow of private short-term capital, both foreign and domestic, attracted by higher interest rates abroad or influenced by speculation on possible changes in the relative values of different currencies and gold.

In contrast, Canada continued to run a trade deficit and a large deficit on the over-all current account financed mainly by an inflow of long-term capital.

The developments of 1960 provided further encouragement to international co-operation in an environment of convertibility and liberalized trade. In December, Canada and the United States as well as the European member countries of the O.E.E.C. signed the convention of the new Organization for Economic Co-operation and Development. This new international organization is expected to play a useful role in the fields of economic policy and trade, and of aid to underdeveloped countries. Little progress has been made, however, in the solution of the problems arising from the creation of regional groupings in Europe.

The Balance of Payments of Canada and the United States Compared : 1960*

(billions of Canadian or United States dollars)

	<u>Canada</u>	<u>U.S.A.</u>
CURRENT RECEIPTS (+)		
OR PAYMENTS (-)		
Merchandise exports	+5.4	+19.4
Merchandise imports	-5.5	-14.7
	<u> </u>	<u> </u>
Merchandise balance	-.1	+4.7
Non-merchandise receipts . . .	+1.6	+7.7
Non-merchandise payments . . .	-2.5	-8.6
	<u> </u>	<u> </u>
Non-merchandise balance. . . .	-.9	-.9
	<u> </u>	<u> </u>
BALANCE ON GOODS AND SERVICES .	-1.1	+3.8
Government grants and private remittances, net . . .	-.2	-2.4
	<u> </u>	<u> </u>
TOTAL CURRENT ACCOUNT BALANCE .	-1.3	+1.4
	<u> </u>	<u> </u>
CAPITAL INFLOWS (+) OR OUTFLOWS (-)		
Government long-term capital, net .	—	-1.1
Private long-term capital, net . .	+8	-2.0
	<u> </u>	<u> </u>
Total long-term capital, net . . .	+8	-3.1
All other capital movements, net .	+4	-2.1
	<u> </u>	<u> </u>
TOTAL CAPITAL INFLOW (+)		
OR OUTFLOW (-)	+1.2	-5.2
Decline in recorded "reserves" (+)	—	+3.8
	<u> </u>	<u> </u>
TOTAL CAPITAL ACCOUNT BALANCE .	+1.3	-1.4
	<u> </u>	<u> </u>

* As far as possible, the above table presents the balance of payments for the two countries on a comparable basis. Estimates for the United States are based on the initial summary release by the United States Department of Commerce. This source does not separate Government grants and capital transfers, and Government grants have been estimated at \$1.6 billion for 1960 on the basis of their level in 1958, 1959 and the first three quarters of the year. For the United States all other capital movements consist of a net short-term outflow of \$1.1 billion plus an outflow of \$1.0 billion arising from errors and omissions but believed to consist largely of unrecorded capital movements. In both countries, merchandise transactions exclude transfers under military grants and non-merchandise transactions exclude official contributions, grants and private remittances. In Canada, private long-term capital includes net direct investment and all transactions in bonds and stocks. Declines in recorded "reserves" are, for Canada, declines in official holdings of gold and foreign exchange and, for the United States, increases in foreign gold and liquid dollar assets through transactions with the United States.

International short-term capital movements assumed large proportions in 1960. Some money moved for speculative or non-economic reasons, e.g., from the Union of South Africa, the Belgian Congo, Venezuela and Cuba. The gold parity of the United States dollar came under question in some quarters in 1960 and speculative movements resulted in the price of gold in the London free gold

market being temporarily bid up to more than \$39 an ounce in October. By the early months of 1961, however, it appeared that the improvement in the basic balance of international payments position of the United States and the clearly expressed intention of that country to maintain the par value of its currency had arrested the speculation against the United States dollar.

To a considerable extent the short-term movements of capital which took place in 1960 were not speculative in character but a response to the emergence of large differentials especially in short-term interest rates reflecting the differences in domestic and external economic developments. The experience of 1960 has caused many observers to raise the question whether the present international financial machinery is adequate to cope with the strains which may arise if large interest rate differentials lead to a very large movement of short-term funds between important industrial countries, and proposals for changes in international arrangements have been under discussion in a number of countries.

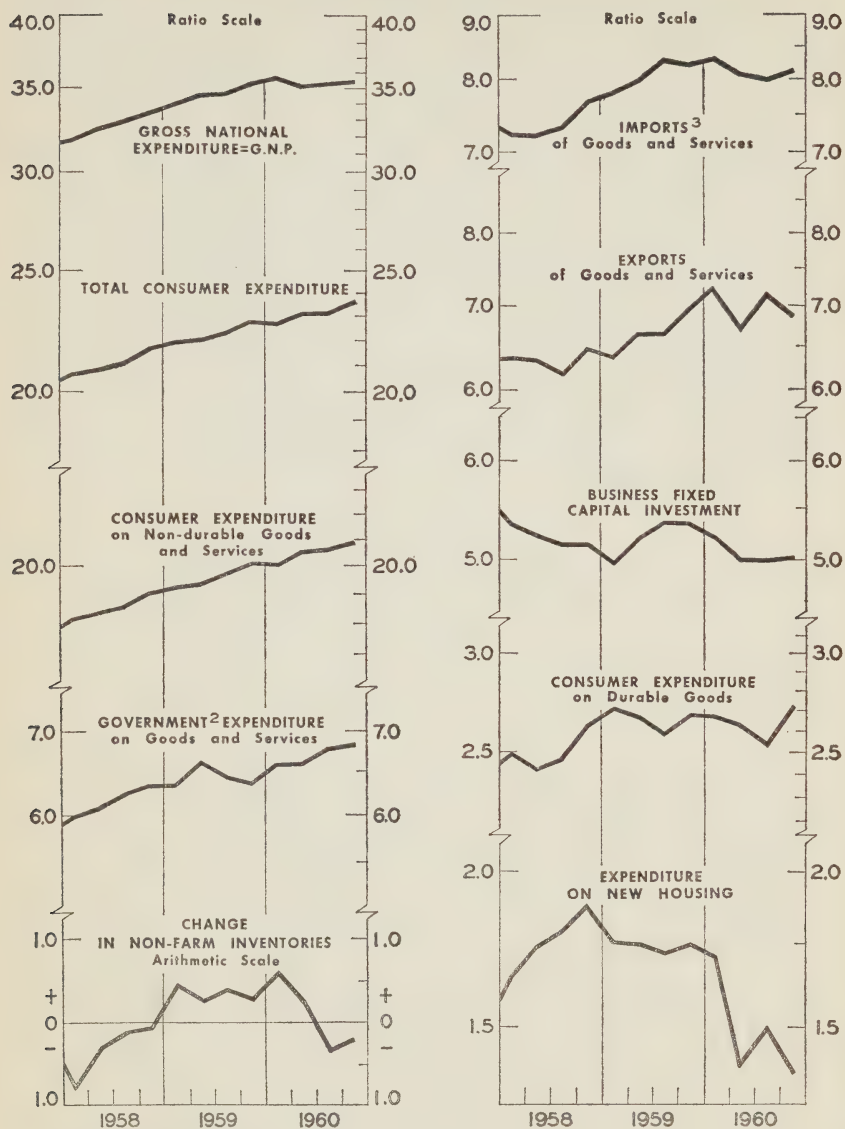
Economic Developments

The expansion in over-all output in Canada which began early in 1958 continued in the first quarter of 1960. The volume of total production was 8 per cent above its level two years previously and total employment was 5 per cent higher. Unemployment, seasonally adjusted, was 6 per cent of the labour force. Prospects for increased investment as indicated by the survey of business intentions, and prospects for higher exports which were based both on the optimistic views then current about the United States economic scene, and also on the strong growth taking place in the major countries overseas, gave rise to optimistic expectations for developments in 1960.

In the event, the first quarter proved to be the high-water mark of the cyclical expansion. Total output fell by more than one per cent in the second quarter. Actual outlays by business in 1960 for new capital projects fell below expectations, including those reflected in the mid-year review of investment intentions, although they continued to be high in relation to pre-1956 levels or to levels in most other countries. Exports to the United States fell sharply from the unusually high levels reached after the

COMPONENTS OF GROSS NATIONAL EXPENDITURE: 1958-60

Seasonally Adjusted at Annual Rates
Quarterly¹ — Billions of Current Dollars

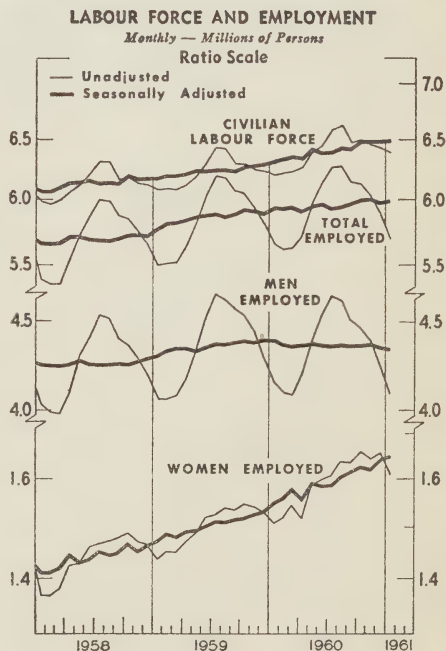


1. Fourth quarter 1960 estimated
2. All levels of government
3. Deducted in arriving at G.N.E.

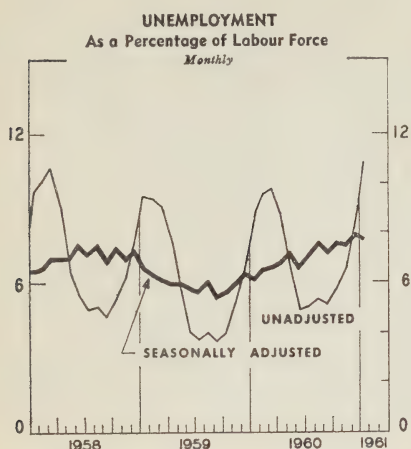
settlement of the steel strike, and there was a marked decline in residential construction. During the second half of the year there developed a general liquidation of business inventories in both Canada and the United States which acted as a check to total output. A further rise in exports to overseas countries was accompanied by a continued decline in exports to the United States. Despite such influences, final domestic demand increased in the second half of the year, being supported by further growth in consumer spending and in government purchases of goods and services. The level of total output remained fairly steady after mid-year. In the fourth quarter, the seasonally adjusted annual rate of gross national product in current dollars was about one-half of one per cent higher than in the fourth quarter of 1959 and, making allowance for an estimated price increase of close to one per cent, the level of physical output was fractionally less than a year before.

Employment and Unemployment. The Canadian labour force expanded by 3.2 per cent from December 1959 to December 1960, while total employment increased by 1.3 per cent. There was a sharp rise in the proportion of women of working age in the labour force, and the number of women with jobs increased by 8 per cent. Male employment, on the other hand, declined slightly during 1960; in December the number of men with jobs was 1 per cent less than a year before.

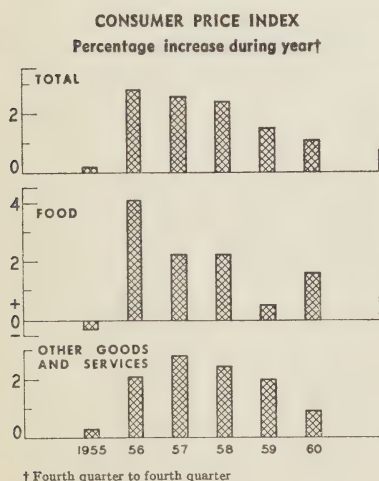
Non-farm employment increased by 1.6 per cent while employment in agriculture declined slightly. Employment in the service industries, which are large employers of women, rose by 5 per cent in the course



of the year while employment in non-farm goods-producing industries declined by 3 per cent.



cent, the number of men unemployed rose from 7.7 per cent of the male labour force to 9.9 per cent and the unemployment ratio for women rose from 3.2 per cent to 3.7 per cent. A further feature of the unemployment situation is the age distribution of unemployed men. Among men of age 20-24 in the labour force, the unemployment ratio in December 1960 was 13.1 per cent.



On a seasonally adjusted basis, the growth in the total labour force steadily outpaced the rise in employment through 1960 and unemployment increased. The decline in male employment caused the male unemployment ratio to rise more than the increase in the total unemployment ratio. From December 1959 to December 1960 total unemployment rose from 6.5 per cent of the total labour force to 8.2 per cent

Price Changes. Prices continued to rise. The composite price index of all goods and services measured in the gross national product is estimated to have risen nearly 1 per cent from fourth quarter to fourth quarter. The consumer price index in December 1960 was 1.3 per cent higher than a year before. The food sub-index rose by 2.4 per cent, accounting for more than half the increase in the total index. Prices of consumer goods other than

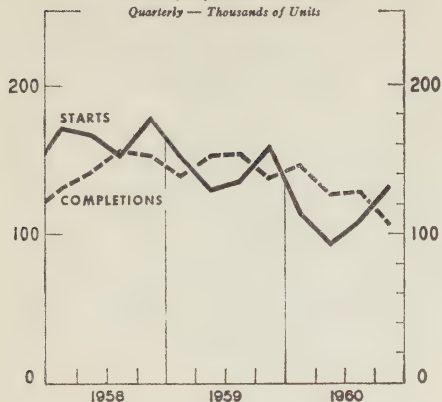
food declined slightly for the first time in five years. Prices of consumer services increased by 1.8 per cent during 1960, which was the smallest rate of increase in this area for some years. Among the service costs, there was a continued slowing-down in the rate of increase in rents to less than one-half of one per cent during 1960. The composite index of construction costs continued to move up rather more rapidly than consumer prices in general. Prices of building materials were about level in 1960. Canadian dollar prices of Canadian primary industrial materials were mostly steady to slightly lower in 1960, despite the effect of some decline in the foreign exchange value of Canadian currency in the course of the year.

Capital Expenditures — New Investment. Total outlays on private and public investment in Canada in 1960 amounted to \$8,200 million compared with \$8,417 million the year before, although both the first survey and the mid-year survey of intentions forecast a higher level for 1960 than in 1959. The major decline in capital expenditure occurred in residential construction, where outlays were down \$263 million. Direct government outlays were \$70 million higher of which about half represented increased expenditure on schools. The total of business fixed capital investment was virtually unchanged from the year before, although on a quarterly seasonally-adjusted basis it was lower at the end of 1960 than at the end of 1959. Major declines occurred in the case of railways, electric and gas utilities, petroleum refining, non-metallic mineral processing and transportation equipment. Major increases occurred in the case of pipeline construction, air transportation, mining, and in pulp and paper, iron and steel and chemical manufacturing. The first survey of 1961 investment intentions indicates a moderate increase (about 2 per cent) from the year before. Significant increases are forecast in the case of housing, government departments, institutions, pipelines and electric utilities, with all other sectors, on balance, somewhat lower than in 1960.

Expenditure on housing construction was about 15 per cent below the 1959 level. The number of housing units completed in 1960 fell to 124,000 from 146,000 in the previous year, while the

HOUSING STARTS AND COMPLETIONS

Seasonally Adjusted at Annual Rates
Quarterly — Thousands of Units



number of units started dropped to 109,000 from 141,000 in 1959. Most of the latter decline was in starts financed under the National Housing Act. The rate of completions tended to move steadily lower in the course of 1960 but the rate of starts, seasonally adjusted, recovered substantially in the latter part of the year, partly as a result of changes in the

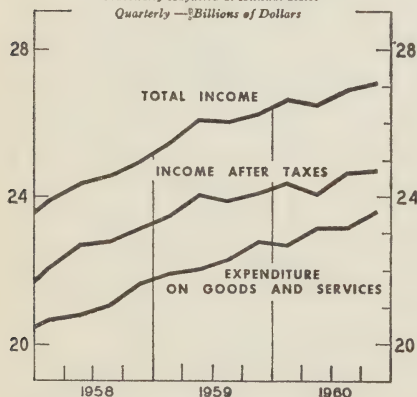
National Housing Act and Regulations.

Consumer Expenditures. Consumer spending continued to rise during 1960. For the year as a whole, personal expenditure on consumer goods and services was nearly 4 per cent higher than in 1959, a rate of increase which was fairly well maintained through the year. Expenditure on most non-durable goods and on services grew almost as rapidly as in the previous year but consumer purchases of durable goods were no higher in 1960 than in 1959.

Sales of new automobiles were 4 per cent higher while purchases of appliances and some other household durables were down quite sharply from a year earlier. The over-all increase of nearly 4 per cent in personal expenditure in 1960 was appreciably more than the rise in personal income after taxes, so that the rate of net personal saving was lower than in either 1959 or 1958. The amount of consumer

PERSONAL INCOME AND EXPENDITURE

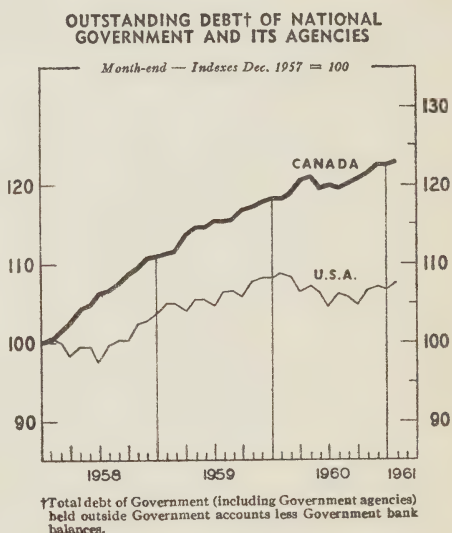
Seasonally Adjusted at Annual Rates
Quarterly — Billions of Dollars



Fourth quarter 1960 estimated.

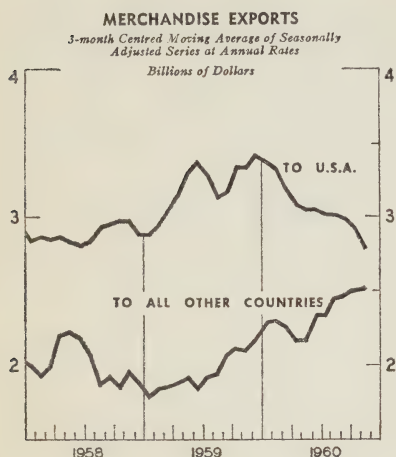
credit outstanding rose during 1960; at year-end it was an estimated 9 per cent higher than a year before.

Government Expenditures. The total of expenditures by federal, provincial and municipal governments for all purposes including transfer payments continued to rise during 1960. Total revenues did not increase as much, so that the over-all deficit of all governments on a national accounts basis was larger than in 1959. The available evidence of quarter-to-quarter changes suggests a sharp widening in the over-all deficit in the second half of the year, and it is probable that by year-end on a seasonally adjusted basis the annual rate of the combined deficit for all levels of government was not much below the 1958 level. The increase in the Government of Canada's direct and guaranteed outstanding debt in 1960 was again appreciable, although somewhat smaller than in 1959 and substantially less than in 1958.



Inventories. Swings in inventory investment had a major effect on economic activity in Canada during 1960. In the first half of the year there were substantial net additions to inventory at all levels. After mid-year, manufacturers began to reduce their over-all level of stocks and there was also some liquidation at later stages of distribution. In the final quarter of the year, preliminary figures suggest there was some slowing down in the rate at which manufacturers' inventories were being reduced.

International Trade and Payments. Total Canadian merchandise exports in 1960 followed an irregular pattern, reaching a very high rate in the first quarter, falling quite sharply in the second quarter, recovering much of this loss in the third and easing off again in the final quarter. The net change for the year as a whole



was an increase of some 5 per cent over 1959. Two markedly divergent trends in external markets underlay these changes. Exports to the United States reached their peak in the opening months of the year. Thereafter they declined quite steadily, at first in response to the return to more normal trade patterns as shortages in the United States arising from its steel strike wore off, but later in the year in response to the decline of

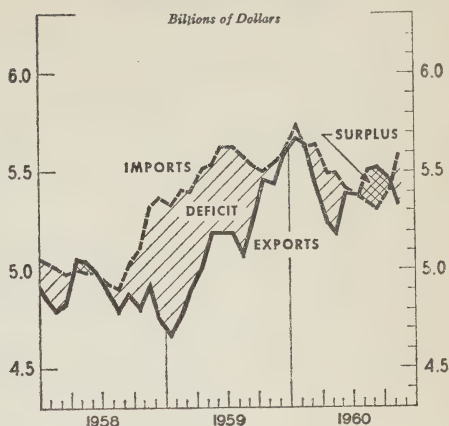
activity and reduced demand for Canadian materials on the part of United States industry. Exports to countries other than the United States by contrast rose strongly through the year and were 20 per cent higher in 1960 than in 1959. Substantial gains were made in sales to the United Kingdom, Europe, Japan, Australia and New Zealand.

By commodities, exports of metals and minerals were 10 per cent higher in 1960 than in 1959, although there was a 15 per cent decline in uranium shipments; exports of primary iron and steel, aluminum, copper and nickel and petroleum rose substantially. Forest products were higher by 5 per cent and chemicals by 18 per cent. Exports of manufactured goods other than agricultural implements rose by 15 per cent. On the other hand, exports of agricultural products declined in 1960, and exports of agricultural implements fell back from the relatively high levels of 1959.

Canadian merchandise imports declined slightly during 1960 until the final quarter when a slight increase occurred. For the year as a whole, there were larger imports of industrial materials and aircraft and lower purchases of machinery and construction materials; imports of consumer goods showed little change. As a result total imports were about the same as in 1959. The merchandise trade

MERCHANDISE EXPORTS AND IMPORTS

3-month Centred Moving Average
of Seasonally Adjusted Series at Annual Rates



deficit which amounted to \$423 million in 1959 was reduced by the extent of the increase in exports, or by \$275 million to about \$148 million in 1960. Owing to the divergent trends in export markets, there was an appreciable increase during the year in our trade surplus with the United Kingdom and other overseas countries, and a fairly sharp increase in our trade deficit with the United States.

Canada's large adverse balance of payments on non-merchandise transactions continued to increase although at a slower rate than in recent years, and reached a new record level of \$1,122 million in 1960 compared to \$1,071 million in 1959. While Canadian gold production available for export rose somewhat, there were small increases in the deficits on freight, travel, and interest and dividends and the deficit on other non-merchandise items (business services, Government transactions, migrants' funds, and personal and institutional remittances) rose from \$433 million to \$477 million.

The over-all current account deficit in 1960 amounted to \$1,270 million, a reduction of \$224 million from the previous year.

The aggregate inflow of long-term capital fell by about \$250 million in 1960, and a very marked shift occurred in its composition.

Foreign direct investment in Canada in 1960 was substantially higher than in 1959, particularly in the first half of the year. It amounted to \$690 million in 1960, or \$140 million more than in 1959, and surpassed the previous record reached in 1956. The increase in direct investment in 1960 was largely accounted for by higher investment in petroleum, natural gas and mining. The take-over of existing Canadian firms by non-residents again made up an appreciable part of total direct investment in Canada.

On the other hand, the inflow of capital arising from security transactions declined by nearly \$400 million, from \$617 million in 1959 to \$218 million in 1960. While net sales of new and outstanding Canadian stocks to non-residents fell from \$140 million in 1959 to \$62 million in 1960, the principal decline occurred in net sales of bonds. Net sales of new issues of Canadian bonds to non-residents fell from \$419 million to \$158 million with the largest decline occurring in the issues of provincial governments and their agencies. Net sales of outstanding Canadian bonds to foreigners fell from \$91 million to \$7 million.

Sales of New Issues of Canadian Bonds to Non-Residents*

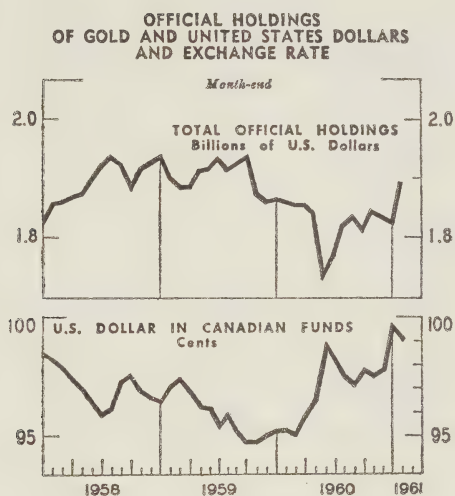
(millions of dollars)

	Sales		Retirements		Net Sales	
	1959	1960	1959	1960	1959	1960
Government of Canada	56	31	101	57	-45	-26
Provincial	334	102	41	47	+293	+55
Municipal	158	122	34	35	+124	+87
Corporate	112	120	65	78	+47	+42
Total	660	375	241	217	+419	+158

* Includes issues payable in Canadian funds as well as in foreign currencies.

The net inflow of short-term capital remained about the same in 1960 as in 1959. The aggregate movement of funds (for the most part private short-term funds) in respect of changes in Canadian dollar holdings of non-residents and the balance of payments item "Other capital movements" amounted to \$379 million in 1960 compared with \$363 million in 1959 and was concentrated in the fourth quarter of the year when the preceding build-up of foreign

currency deposits by Canadians was sharply reversed. Official holdings of gold and foreign exchange fell by \$70 million in 1959 (including a gold payment of \$62.5 million to the International Monetary Fund) and by \$39 million in 1960. Canada's official holdings of gold and United States dollars amounted to U.S. \$1,829 million at the end of 1960.



The value of the United States dollar in Canada moved within rather wider limits in 1960 than in 1959. The United States dollar declined slightly from 95 $\frac{7}{32}$ at the end of 1959 to a low of 94 $\frac{15}{16}$ in March 1960, climbed sharply to a peak of 99 in May, fell back to 96 $\frac{5}{8}$ in August, and rose again to almost 98 by the end of September; it fluctuated somewhat unevenly near the 98 level from then until the last ten days of the year when it rose after the supplementary budget and closed the year at 99 $\frac{21}{32}$.

Canadian Balance of International Payments

(millions of dollars)

Current Account	<u>1958</u>	<u>1959</u>	<u>1960</u>
1. With the United States			
Merchandise exports	2,908	3,189	3,039
Merchandise imports	3,443	3,727	3,718
Trade balance	-535	-538	-679
Non-merchandise receipts	1,102	1,179	1,213
Non-merchandise payments	1,743	1,882	1,911
Non-merchandise balance	-641	-703	-698
	<hr/>	<hr/>	<hr/>
Current account balance	-1,176	-1,241	-1,377
	<hr/>	<hr/>	<hr/>
2. With Other Countries			
Merchandise exports	1,979	1,960	2,361
Merchandise imports	1,623	1,845	1,830
Trade balance	+356	+115	+531
Non-merchandise receipts	448	457	446
Non-merchandise payments	759	825	870
Non-merchandise balance	-311	-368	-424
	<hr/>	<hr/>	<hr/>
Current account balance	+45	-253	+107
	<hr/>	<hr/>	<hr/>
3. With All Countries			
Merchandise exports	4,887	5,149	5,400
Merchandise imports	5,066	5,572	5,548
Trade balance	-179	-423	-148
Non-merchandise receipts	1,550	1,636	1,659
Non-merchandise payments	2,502	2,707	2,781
Non-merchandise balance	-952	-1,071	-1,122
	<hr/>	<hr/>	<hr/>
Current account balance	-1,131	-1,494	-1,270
	<hr/>	<hr/>	<hr/>

Source: Dominion Bureau of Statistics

Capital Account [inflows (+) outflows (-)]	<u>1958</u>	<u>1959</u>	<u>1960</u>
Foreign direct investment in Canada . . .	+420	+550	+690
Net sales of Canadian stocks to non-residents .	+115	+140	+62
Net sales of new Can. bond issues to non-residents			
Government of Canada	+51	-45	-26
Provincial	+123	+293	+55
Municipal	+118	+124	+87
Corporate	+200	+47	+42
Total	+492	+419	+158
Net sales of outstanding Canadian bonds . .	—	+91	+7
Canadian direct investment abroad . . .	-48	-80	-85
Net new issues of foreign securities in Canada .	-10	-1	-1
Trade in outstanding foreign securities . .	+13	-32	-8
Net loan repayments to Govt. of Canada . .	+30	+33	+32
Subscriptions in gold & U.S. \$ to international financial agencies.	—	-59	-3
Changes in Canadian \$ holdings of foreigners .	+106	+13	+115
Official holdings of gold & foreign exchange (inc. —)	-109	+70	+39
Other capital movements	+122	+350	+264
Net capital movement	<u>+1,131</u>	<u>+1,494</u>	<u>+1,270</u>

Balance of Payments Trends: 1948-1960

(millions of dollars)

Balance of Payments on Current Account						Physical Volume Indexes 1948 = 100	
	Exports	Imports	Balance	Non-Merchandise Transactions (net)	Current Account Balance	Merchandise Exports	Merchandise Imports
1948	3,030	2,598	+432	+19	+451	100.0	100.0
1949	2,989	2,696	+293	-116	+177	94.2	102.0
1950	3,139	3,129	+10	-344	-334	93.6	109.2
1951	3,950	4,097	-147	-370	-517	103.5	122.7
1952	4,339	3,850	+489	-325	+164	114.9	138.0
1953	4,152	4,210	-58	-385	-443	113.2	151.0
1954	3,929	3,916	+13	-445	-432	109.6	141.0
1955	4,332	4,543	-211	-487	-698	118.5	157.9
1956	4,837	5,565	-728	-638	-1,366	128.5	187.5
1957	4,894	5,488	-594	-861	-1,455	129.3	179.6
1958	4,887	5,066	-179	-952	-1,131	130.4	165.6
1959	5,149	5,572	-423	-1,071	-1,494	134.2	183.9
1960	5,400	5,548	-148	-1,122	-1,270	140.2	180.7*

*Estimated

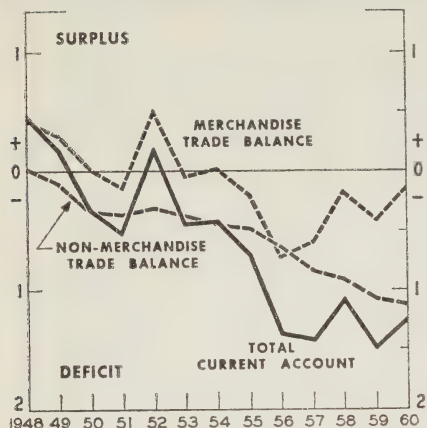
Non-Merchandise Transactions in the Balance of International Payments on Current Account							Estimated Annual Unremitted Profits on Foreign Direct Investment in Canada
Gold Production Available for Export	Freight and Shipping (net)	Travel (net)	Interest and Dividends (net)	Other Non-Merchandise Items (net)	Total Non-Merchandise Items (net)		
1948	119	+57	+145	-255	-47	+19	160
1949	139	+50	+92	-307	-90	-116	155
1950	163	-17	+49	-384	-155	-344	155
1951	150	-3	-6	-335	-176	-370	200
1952	150	+8	-66	-268	-149	-325	290
1953	144	-56	-63	-239	-171	-385	340
1954	155	-43	-84	-276	-197	-445	300
1955	155	-17	-121	-323	-181	-487	370
1956	150	-45	-161	-381	-201	-638	480
1957	147	-70	-162	-435	-341	-861	475
1958	160	-59	-193	-444	-416	-952	250
1959	148	-105	-207	-474	-433	-1,071	n.a.
1960	161	-111	-215	-480	-477	-1,122	n.a.

Current Account Balance of Payments by Regions

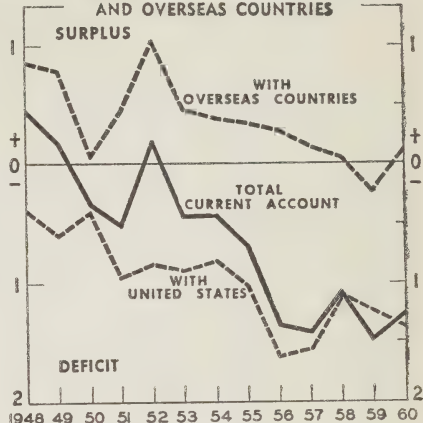
	Merchandise Balance with			Non-Merchandise Balance with			Total Balance with		
	U.S.A.	Over-seas Countries	All Countries	U.S.A.	Over-seas Countries	All Countries	U.S.A.	Over-seas Countries	All Countries
1948	-289	+721	+432	-104	+123	+19	-393	+844	+451
1949	-378	+671	+293	-223	+107	-116	-601	+778	+177
1950	-47	+57	+10	-353	+9	-344	-400	+66	-334
1951	-516	+369	-147	-435	+65	-370	-951	+434	-517
1952	-471	+960	+489	-378	+53	-325	-849	+1,013	+164
1953	-588	+530	-58	-316	-69	-385	-904	+461	-443
1954	-445	+458	+13	-362	-83	-445	-807	+375	-432
1955	-685	+474	-211	-350	-137	-487	-1,035	+337	-698
1956	-1,167	+439	-728	-472	-166	-638	-1,639	+273	-1,366
1957	-947	+353	-594	-632	-229	-861	-1,579	+124	-1,455
1958	-535	+356	-179	-641	-311	-952	-1,176	+45	-1,131
1959	-538	+115	-423	-703	-368	-1,071	-1,241	-253	-1,494
1960	-679	+531	-148	-698	-424	-1,122	-1,377	+107	-1,270

Source: Dominion Bureau of Statistics.

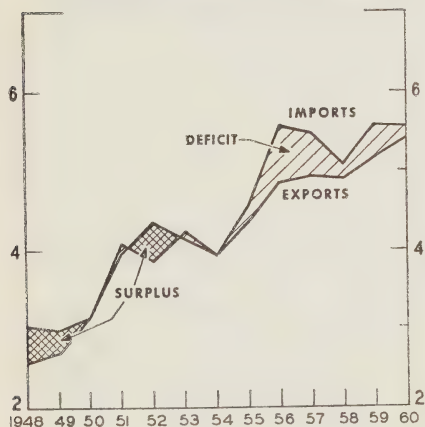
BALANCE OF PAYMENTS ON CURRENT ACCOUNT



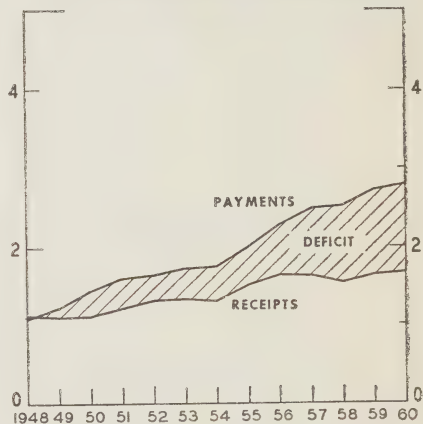
BALANCE OF PAYMENTS ON CURRENT ACCOUNT WITH THE UNITED STATES AND OVERSEAS COUNTRIES



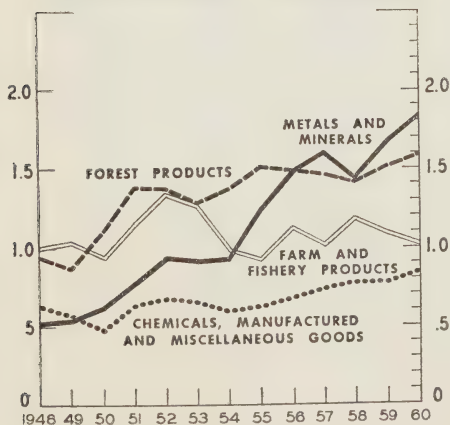
MERCHANDISE EXPORTS AND IMPORTS



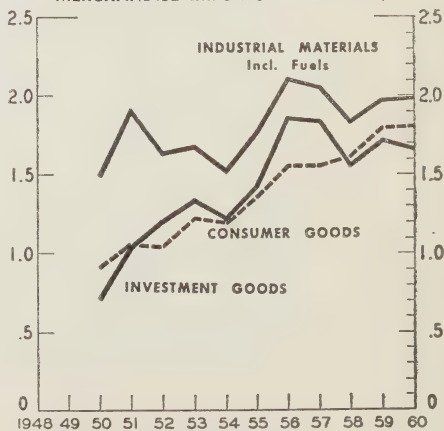
NON-MERCHANDISE TRANSACTIONS



MERCHANDISE EXPORTS : MAIN GROUPINGS



MERCHANDISE IMPORTS BY END USE†



† Figures for 1948 and 1949 are not available, 1960 estimated.

Balance of International Payments on Capital Account

(millions of dollars)

	<u>Foreign Direct Investment in Canada</u>	<u>Canadian Direct Investment Abroad</u>	<u>Net Sales of New Issues of Can. Stocks</u>	<u>Trade in Outstanding Can. Stocks</u>	<u>Net Sales of New Issues of Can. Bonds</u>
1948	+71	+15			
1949	+94	+13			
1950	+222	+36			(not available)
1951	+309	-20			
1952	+346	-77	+22	+72	+205
1953	+426	-63	+40	+21	+149
1954	+392	-81	+11	+129	+117
1955	+417	-74	+57	+138	-75
1956	+583	-104	+65	+188	+461
1957	+514	-68	+36	+137	+629
1958	+420	-48	+27	+88	+492
1959	+550	-80	+30	+110	+419
1960	+690	-85	+14	+48	+158

Source: Dominion Bureau of Statistics.

The Canadian Balance of International Indebtedness

(billions of dollars)

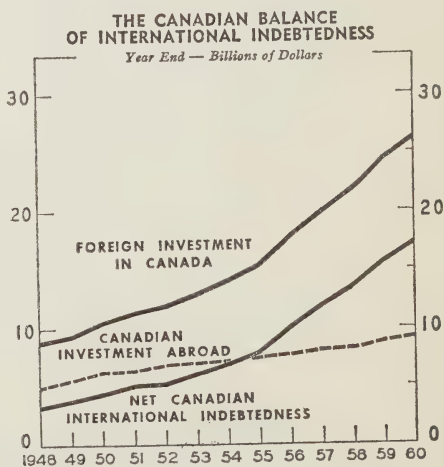
	<u>Canadian Liabilities</u>				<u>Canadian Assets</u>	
	<u>Foreign Direct Investment in Canada</u>	<u>Foreign Portfolio Investment in Canada</u>	<u>Other Canadian Liabilities to Foreigners</u>	<u>Total</u>	<u>Government Loans and Subscriptions</u>	<u>Canadian Official Exchange Holdings</u>
<u>Dec. 31</u>						
1948	3.3	4.2	1.3	8.8	2.3	1.0
1949	3.6	4.4	1.3	9.3	2.4	1.2
1950	4.0	4.7	1.8	10.5	2.4	1.9
1951	4.5	4.9	1.9	11.3	2.3	1.8
1952	5.2	5.1	1.6	11.9	2.3	1.8
1953	6.0	5.5	1.4	12.9	2.2	1.8
1954	6.8	5.9	1.4	14.1	2.1	1.9
1955	7.7	5.8	1.8	15.3	2.0	1.9
1956	8.9	6.6	2.2	17.7	2.0	1.9
1957	10.1	7.4	2.4	19.9	1.9	1.8
1958	10.9	8.0	2.9	21.8	1.9	1.9
1959	11.8	9.0	3.6	24.4	2.1	1.8
1960*	12.8	9.5	3.8	26.1	2.0	1.8

Source: Dominion Bureau of Statistics.

*Preliminary.

<u>Trade in Outstanding Can. Bonds</u>	<u>Transactions in Foreign Bonds & Stocks</u>	<u>All Trans- actions in Bonds & Stocks</u>	<u>All Other Items</u>	<u>Over-all Capital Receipts (+) or Payments (-)</u>
		+31	-568	-451
		-14	-270	-177
		+331	-255	+334
		+280	-52	+517
-166	-8	+125	-558	-164
-52	—	+158	-78	+443
-66	-24	+167	-46	+432
-165	-6	-51	+406	+698
+11	+2	+727	+160	+1,366
-45	+6	+763	+246	+1,455
—	+3	+610	+149	+1,131
+91	-33	+617	+407	+1,494
+7	-9	+218	+447	+1,270

<u>Other Canadian External Assets</u>	<u>Total</u>	<u>Net Canadian International Indebtedness</u>
1.6	4.9	3.9
1.9	5.5	3.8
1.9	6.2	4.3
2.2	6.3	5.0
2.6	6.7	5.1
2.9	6.9	6.0
3.2	7.2	6.8
3.5	7.4	7.9
3.8	7.7	10.0
4.4	8.1	11.8
4.6	8.4	13.4
4.9	8.8	15.5
5.3	9.1	17.0

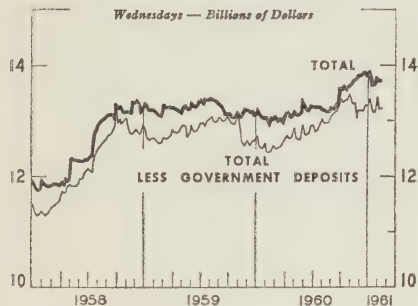


Monetary and Financial Developments

Developments in the monetary and financial field during 1960 showed marked changes of trend towards the end of the third quarter, some of which are illustrated in the charts below. Through the first three quarters of the year the total stock of money remained fairly constant, the volume of Government and other market financ-

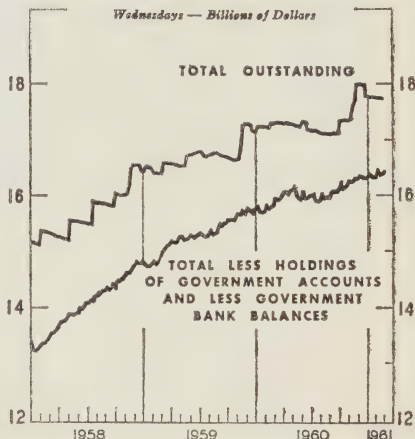
**CURRENCY OUTSIDE BANKS
AND CHARTERED BANK DEPOSITS**

Wednesdays — Billions of Dollars



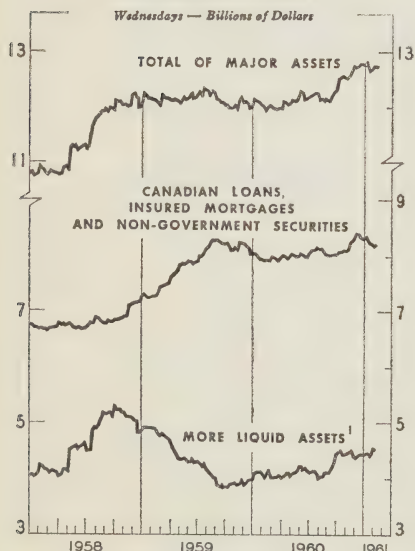
GOVERNMENT DEBT OUTSTANDING

Wednesdays — Billions of Dollars



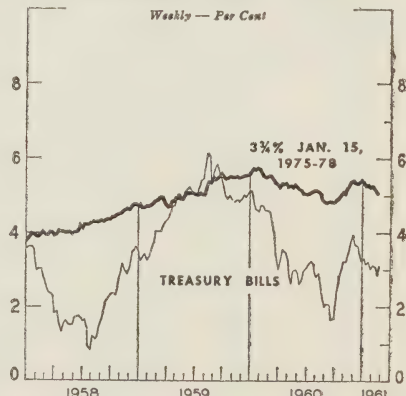
CHARTERED BANK ASSETS

Wednesdays — Billions of Dollars



GOVERNMENT SECURITY YIELDS

Weekly — Per Cent



1. Bank of Canada notes and deposits, day-to-day loans, government securities, net foreign assets and call loans. (See footnote on page 49).

ing declined and total Government debt outstanding was reduced somewhat, bank loans increased moderately and security yields declined substantially. In the latter part of the year the total stock of money rose rapidly, as did the chartered banks' holdings of more liquid assets.* At the same time bank loans increased and Government financing took place on a larger scale. Security yields were rising through most of the fourth quarter but since late December (to late February) have declined appreciably.

The marked upward movement in interest rates at the end of September occurred when it became apparent that investors in the aggregate were not prepared to purchase medium-term and long-term bonds in quantity at the level of interest rates that prevailed at that time. On September 12th, a new issue of \$250 million of Government-guaranteed C.N.R. bonds had been offered for cash, consisting of \$75 million of $4\frac{1}{2}$ per cent bonds due April 1, 1967 and \$175 million of 5 per cent bonds due October 1, 1987. To all appearances the issue was extremely well received in the market, and during the week following allotment both maturities were traded at prices up to one per cent above the original offering price to investors. It became apparent after delivery took place on October 3rd, however, that only a small part of the issue had in fact been taken up by net cash sales to the public. Chartered bank holdings of Government securities, together with chartered bank financing of dealer inventories in the form of day-to-day loans and call loans, were more than \$200 million higher on Wednesday, October 5th, than a week earlier. It was clear that a substantial amount of the issue either was still in the hands of primary distributors or had been sold to investors against trade-outs of other securities which in turn were financed by bank credit. The money supply rose \$250 million in that week; over the fourth quarter the increase amounted to \$552 million.

This was not the first occasion when the immediate and apparent demand for a new Government issue turned out to be much larger than the effective demand of those who really wished to invest in

*There are theoretical considerations both for and against the inclusion of call loans in "more liquid assets". Since sharp increases in this asset item have normally been reversed within a few weeks it seems preferable to include them.

Government securities when the new issue was delivered. The \$350 million net increase in Government of Canada debt associated with the delivery of new issues dated May 1, 1958 was accompanied in that week by an expansion of \$287 million in the combined total of chartered banks' holdings of Government securities, call loans and day-to-day loans. There have been a number of similar occurrences on a somewhat smaller scale.

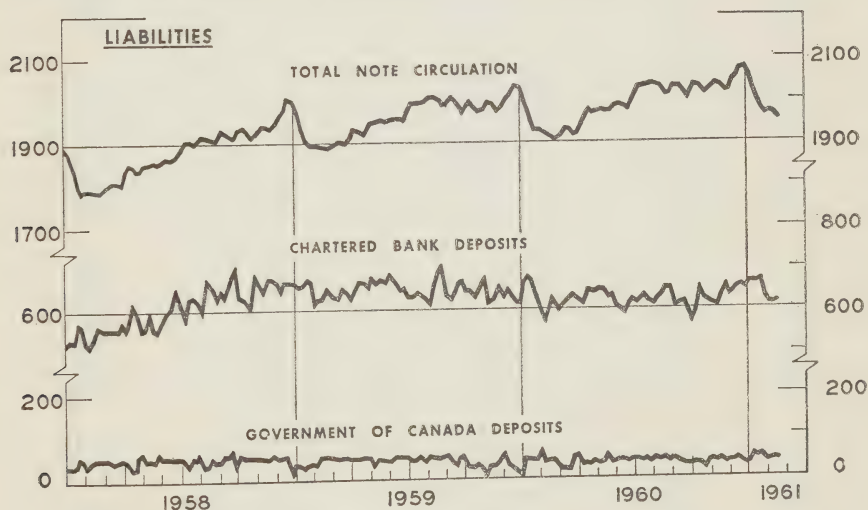
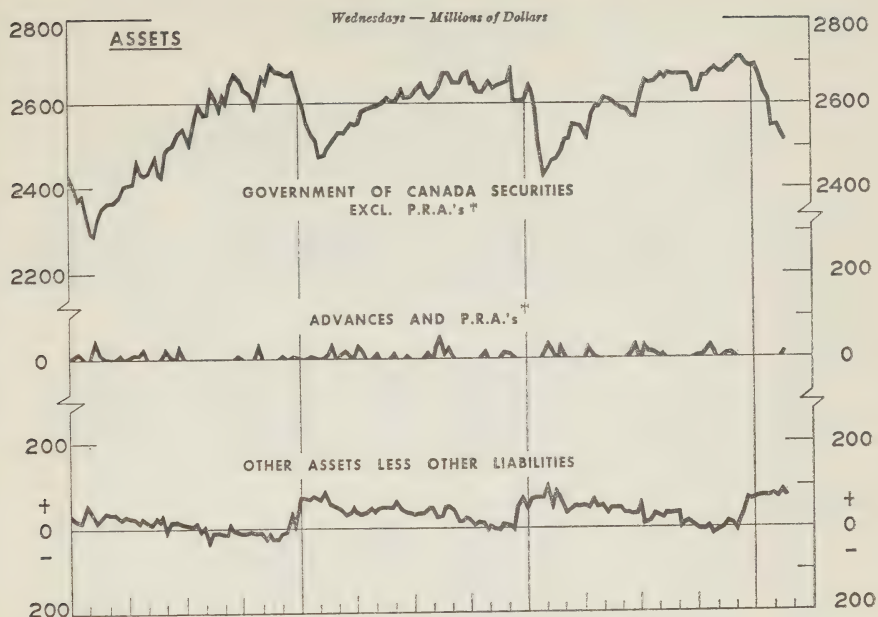
Market yields on all issues of Government securities increased substantially during October and November but turned downward again late in December. Yields on Government securities were lower at the end of 1960 than at the beginning of the year and have declined in January and February 1961.

The total amount of Government securities outstanding increased by \$612 million in 1960. General public holdings rose by \$355 million, the net result of increases of \$382 million in holdings of Canada Savings Bonds and \$179 million in holdings of market bonds, and a decrease of \$206 million in holdings of treasury bills.

Over 1960 as a whole, chartered bank assets increased by \$753 million, or more than 6 per cent, of which \$414 million was accounted for by the more liquid assets. The increase in the total money supply was \$721 million, or 5.5 per cent. Excluding Government deposits, the increase was \$615 million, or 4.8 per cent. In both cases the percentage increases were considerably larger than in the United States. The total United States money supply increased by 2.6 per cent during the year and the total excluding Government deposits increased by 2.3 per cent.

Bank of Canada Operations. The substantial growth in the money supply during 1960 involved an increase of \$76 million on the year in the liabilities of the Bank of Canada, mainly in the amount of its notes circulating among the public as currency and the amount of its notes and deposit liabilities serving the chartered banks as cash reserves. The increase on the year in the public's holdings of Bank of Canada notes was \$27 million, while the chartered banks' holdings of Bank of Canada notes in their vaults and tills rose by \$14 million and their balances on deposit at the Bank of Canada rose by \$26 million. The provision of these in-

BANK OF CANADA ACCOUNTS



† Securities purchased from money market dealers under resale agreements.

Currency Outside Banks and Chartered Bank Deposits, Statutory Deposits and Cash Reserves

(millions of dollars)

Currency Outside Banks and Chartered Bank Deposits			
Monthly Averages of Wednesday Figures			
	<u>Total</u>	<u>Currency Outside Banks</u>	<u>Chartered Bank Deposits (excluding float)</u>
Annual Averages			
1957	11,486	1,568	9,918
1958	12,550	1,655	10,894
1959	13,209	1,730	11,480
1960	13,293	1,762	11,531
Monthly			
1959—Jan.	13,234	1,668	11,566
Feb.	13,130	1,665	11,465
Mar.	13,228	1,688	11,540
Apr.	13,185	1,713	11,472
May	13,218	1,707	11,511
June	13,261	1,721	11,540
July	13,342	1,762	11,579
Aug.	13,357	1,758	11,598
Sept.	13,184	1,766	11,418
Oct.	13,079	1,742	11,337
Nov.	13,139	1,746	11,393
Dec.	13,148	1,789	11,360
1960—Jan.	13,113	1,699	11,414
Feb.	13,000	1,690	11,310
Mar.	13,012	1,715	11,297
Apr.	13,110	1,732	11,378
May	13,140	1,738	11,402
June	13,255	1,767	11,488
July	13,269	1,788	11,481
Aug.	13,195	1,798	11,397
Sept.	13,280	1,784	11,496
Oct.	13,594	1,791	11,802
Nov.	13,717	1,809	11,908
Dec.	13,829	1,818	12,012

- (1) Statutory basis, i.e., the average Canadian dollar deposit liabilities for each month are based on the four consecutive Wednesdays ending with the second last Wednesday of the previous month.
 (2) 8 per cent of gross statutory deposits as shown in preceding column.

Statutory Deposits⁽¹⁾

Averages of Statutory Wednesdays

<u>Chartered Bank Deposits (excluding float)</u>	<u>Float</u>	<u>Total Statutory Deposits</u>	<u>Minimum Cash Reserve Requirement⁽²⁾</u>	<u>Actual Cash Reserves⁽³⁾</u>	<u>Average Cash Reserve Ratio (%)</u>
9,893	708	10,601	848	870	8.21
10,763	687	11,452	916	943	8.23
11,486	701	12,187	975	999	8.20
11,465	587	12,052	964	985	8.17
11,479	775	12,254	980	1,008	8.23
11,539	782	12,320	986	998	8.10
11,496	605	12,102	968	983	8.12
11,514	648	12,162	973	991	8.14
11,478	760	12,238	979	1,002	8.20
11,492	773	12,265	981	1,003	8.18
11,536	714	12,250	980	991	8.09
11,559	830	12,389	991	1,017	8.21
11,613	585	12,197	976	1,009	8.28
11,434	618	12,053	964	1,001	8.31
11,334	690	12,023	962	995	8.27
11,359	636	11,994	960	990	8.25
11,367	707	12,073	966	1,001	8.29
11,404	581	11,985	959	981	8.18
11,319	548	11,867	949	967	8.15
11,295	552	11,847	948	962	8.12
11,364	547	11,910	953	975	8.19
11,381	576	11,957	957	971	8.12
11,492	602	12,094	967	978	8.08
11,478	639	12,117	969	1,000	8.26
11,392	591	11,983	959	981	8.19
11,453	580	12,033	963	984	8.18
11,742	560	12,303	984	999	8.12
11,891	560	12,452	996	1,019	8.18

(3) For each month the cash reserves are equal to the monthly average of the daily figures for chartered bank deposits at the Bank of Canada and the average of chartered bank holdings of Bank of Canada notes for the four consecutive Wednesdays ending with the second last Wednesday of the previous month.

creased levels of currency and cash reserves involved a corresponding increase in the Bank's holdings of Government securities, which constitute its principal assets. The total amount of these holdings rose by \$69 million on the year; treasury bill holdings increased by \$99 million and bond holdings declined by \$29 million.

Bank of Canada Assets and Liabilities

(millions of dollars)

	As at Dec. 31, 1960	Change During 1960
Assets		
Treasury bills	404	+ 99
Gov't. of Canada bonds ⁽¹⁾	2,285	- 29
All other assets	355	+ 7
Total	3,044	+ 76
Liabilities		
Notes in active circulation	1,732	+ 27
Notes held by chartered banks	330	+ 14
Deposits of chartered banks	663	+ 26
All other liabilities	320	+ 10
Total	3,044	+ 76

(1) Includes Government-guaranteed issues.

The average cash reserve ratio during 1960 was 8.17 per cent compared with 8.20 per cent in the previous year, and the average liquid asset ratio was 17.3 per cent compared with 16.4 per cent in 1959. Bank of Canada advances to chartered banks were outstanding on 25 days during 1960 as against 53 days in 1959; the maximum amount outstanding on any one day was \$27 million and the daily average for the year was \$1½ million. The Bank of Canada held securities purchased from money market dealers under resale agreements on 75 days during the year as compared with 64 days in the previous year; the maximum amount outstanding on any one day

was \$66 million and the daily average for the year was \$5 million. The minimum rate at which the Bank makes advances to banks and provides funds to money market dealers through purchase and resale agreements was maintained at a level of one quarter of one per cent above the average rate of treasury bills at each weekly tender. It was 5.37 per cent at the beginning of the year, reached a low of 1.93 per cent in mid-September, and stood at 3.50 per cent at the end of the year.

Transactions in Government securities are the Bank's principal field of operations. Such transactions may be aimed either at altering the level of cash reserves or at offsetting in whole or in part the effect on the level of cash reserves from other influences, such as seasonal swings in note circulation. At times cash reserve considerations will require a reduction in the Bank's holdings of securities and at other times an increase.

Changes in the Bank's holdings of securities may also represent the outcome of a wide variety of other transactions undertaken for a variety of reasons both in the open market and with Government investment accounts, certain Government funds and agencies, and foreign central banks. In conducting its securities transactions, the Bank must take many considerations into account — the borrowing, refunding and investment requirements of the Government, the requirements of its other clients, the desirability of its transactions being carried out in such a way as to minimize any disturbing effect on conditions in securities markets and, in pursuit of these objectives, the need to give priority to its basic function of maintaining cash reserves at an appropriate level.

During 1960 the Bank's transactions in Government securities on a gross basis, exclusive of purchase and resale agreements and transactions undertaken as agent only, totalled \$5,775 million. Of this total \$3,605 million represented Bank of Canada purchases and maturities at the time of new issues and retirements (and advance refundings) of Government bonds and treasury bills and \$555 million represented direct transactions with Government accounts and other clients' accounts. Transactions in the market totalled \$1,520 million with dealers and \$95 million with banks.

On November 28th two new short-term bond issues were offered to the market in a total amount of \$200 million, the proceeds to be used to provide part of the funds required to meet a maturity of \$609 million on December 15th. At this time approximately \$296 million of the maturing issue was held outside the Bank of Canada and Government accounts, so that the net effect of the public offering and the maturity was an outflow of funds from the Government to the market of \$96 million. At the same time the Bank of Canada exchanged \$200 million of its holdings of the maturing issue for bonds of the new issue, and a further \$200 million of its holdings of the December 1, 1961 maturity also for bonds of the new issue. Market demand proved very strong, and the Bank of Canada, immediately after dealers were notified of their allotments, adopted with modifications a procedure similar in essentials to the practice sometimes followed by the larger investment houses when supervising the placement of new bond issues of provincial governments, municipalities and corporations. The practice in their case consists in quoting both buying and selling prices for the new issue before delivery at levels between the net cost of original allotments to participating dealers and the authorized public offering price on sales by dealers to investors.

I am giving details of this procedure at some length, as it appears there was some misunderstanding of the situation on the part of a minority of dealers on November 30th. Immediately after dealers received their allotments on their subscriptions to the new issue at 8.30 that morning, a large number of bids were received by the Bank of Canada from dealers desiring additional supplies. In order to deal as quickly as possible with the large volume of business being pressed upon the Bank by the market the Bank commenced trading at 9.00 a.m. on that day, the usual hour for the market as a whole but an hour earlier than the Bank's usual opening time for market transactions. The Bank made bonds of the new issue available to all dealers in exchange for the May 1961 or December 1961 maturities until the demand had been satisfied for the time being.

During the period between the offering of the new issue and the delivery date the Bank did not itself quote prices or make any statement of intentions to buy or sell, but stood ready to respond to bids

from primary distributors (against the exchange of other bonds, not by way of selling for cash) at prices between the net cost to the distributors of the bonds originally allotted to them, and the selling price at which distributors were permitted to sell the new bonds to the general public. This had the effect of enabling distributors to make a profit on additional bonds obtained from the Bank for resale to the public during the main selling period of the new issue, although less than the commission payable to them by the Government in connection with the original amount made available to the market for cash. At the same time the Bank stood prepared to buy bonds of this issue, in case any condition of over-supply should develop, if and when dealers might offer them at prices slightly below the original net cost of the bonds to the primary distributors, and a few small purchases were made on one day. When renewed demand developed for these bonds the Bank sold to the market a very large proportion of its original holdings, mainly in exchange for other bonds of more nearby maturities.

The selling of bonds by the Bank of Canada in exchange for shorter bonds which will have to be refunded by the Government makes an important contribution to the task of debt management. In this way a continuous process is carried on by which as bond issues approach closer to maturity date a larger proportion comes into the hands of the Bank of Canada or of the Government's Securities Investment Account, and a smaller proportion remains outstanding in the hands of the general public for redemption or refunding on the actual maturity date.

The procedure adopted at the end of November worked out well. The issue achieved a large placement with investors in general, and prices in the after-market remained reasonably stable. A similar practice was followed on the occasion of another new Government short-term issue which was offered on January 18, 1961. It should be emphasized that the Bank does not sell bonds of a new issue during the period between the offering and the delivery except in response to bids from primary distributors and at prices higher than the original net price paid by primary distributors to the Government. In addition to meeting any legitimate surplus demand for a bond issue, this practice would seem to have value in tending to

chill off speculators, who otherwise — as has been seen on earlier occasions — may acquire bonds of a new issue bidding up the price with a view to resale before the time comes to accept delivery and pay for the securities. This is done not with any intention of holding the bonds as an investment but with a view to taking a “free ride” for a few days or a few weeks in the hope of selling out at a profit to genuine investors, who for the time being would have been shouldered aside and in the end (if they were still interested) would have to pay higher prices than those intended by the Government. There can be little doubt that such speculative activity — on the part of some dealers and some other buyers — has had most damaging effects on several issues of Government of Canada securities in the last few years. The actual result in several cases has been that genuine investor interest is not met at the appropriate time and disappears thereafter, leading to some distress selling by weak holders when delivery (and payment) date arrives, an increase in bank credit, falling bond prices and a general state of disorder and pessimism in the market.

The Bank Rate. The Bank of Canada has continued since November 1956 setting its Bank rate each Thursday at a level of one quarter of one per cent above the average rate on accepted tenders at the weekly Government of Canada auction of three-month treasury bills. During the past year there has been some public discussion suggesting it would be desirable to keep the rate unchanged for longer periods and use changes in the rate as a means of giving a signal to the financial community and the public at large.

Over the first eighteen years of the Bank's operations chartered banks rarely applied to the Bank of Canada for advances. There was no money market, and no mechanism by which potential dealers in the money market could obtain short-term credit by transactions with the central bank. The Bank rate therefore had little significance. It was fixed at $2\frac{1}{2}$ per cent in March 1935, and did not change until February 1944 when it was reduced to $1\frac{1}{2}$ per cent, at which time a public statement was made that the Bank intended to continue after the war the kind of monetary policy which was reflected in the current level of interest rates. The rate was next changed (to 2 per cent) in October 1950 following the outbreak of

the Korean War in June of that year; the Bank issued a press release containing the following statement:—

“At the time the reduction in Bank Rate took place in 1944, the Bank expressed the view that it did not then see any prospect of an economic situation in the post-war period of a character which would call for a policy of raising interest rates. The change to a 2 per cent Bank Rate is an indication that the earlier view no longer holds good under today's conditions when Canada faces the prospect of substantially increased defence expenditures adding to the pressure on the country's resources at a time of virtually full employment.”

The next change was in February 1955 when the rate was reduced to 1½ per cent and a statement was issued saying that with the development of a short-term money market in Canada over the preceding twelve months, and with the growth of arrangements whereby money market dealers could obtain short-term credit from the central bank by means of sale and repurchase agreements affecting Government of Canada securities with a term of less than three years, it seemed desirable for the Bank rate of the Bank of Canada to be brought into closer relationship with market yields. From August 1955 to October 1956 the rate was changed six times in order to keep the rate in line with market rates as they changed from time to time. This practice was carried to its logical conclusion in November 1956 with the adoption of the present method by which the Bank rate is one quarter of one per cent above the average tender rate on three-month treasury bills and changes as this treasury bill rate changes. The public statement issued at that time is reprinted on pages 63 and 64.

It will be apparent that there is no past history in Canada of having changes in the Bank rate made with a view to influencing other interest rates, or as a means of indicating the views of the central bank with regard to changes in economic conditions or monetary policy. The Bank's view has been that moving the Bank rate would not be the best method of giving such indications, which if they were to be given at all, would be the subject of public statements. The requests to the chartered banks to limit term loans in 1948 and

to adopt an over-all ceiling on loans in 1951 were not accompanied by changes in the Bank rate.

Reference to practices in other countries with respect to Bank rate is not of much help in relation to Canadian problems because of the very different conditions applicable to such matters in other countries. Some information respecting the relevant factors in the United Kingdom and the United States may be of interest.

In the United Kingdom, the Bank rate has had a long history as an important factor in the operations of the Bank of England, with related effects both on domestic financial conditions and movements of international funds, and changes in the Bank rate receive the prior approval of the Chancellor of the Exchequer. Although the Bank of England has been a lender of last resort for the dealers in the money market only and does not make loans to the commercial banks, the interest rates charged by the banks on their loans and paid on their various categories of deposits are by convention linked to the Bank rate of the Bank of England and changed when it changes, with a specified minimum. Such a condition, of course, does not exist in Canada. I do not suggest that such a close connection between Bank rate and the rates of the commercial banks would necessarily be desirable in Canada, but I mention it to show that the Bank rate in the United Kingdom is intended to have and does have a direct impact on other rates and a more far-reaching influence than it could have in Canada.

In addition, the United Kingdom is an international financial centre where huge sums of money are normally kept on deposit or in short-term investments by the governments, central banks and other institutions of many other countries. There can be very large movements of short-term funds into or out of the United Kingdom at any time. One of the factors which has for at least 100 years been regarded as exerting an important influence on such movements and capable in time of need of protecting the value of the pound sterling is the power to make variations in the Bank rate of the Bank of England, and therefore in the rates of interest available to foreign-owned short-term funds in London. In this respect also there has been no parallel in Canadian conditions to those in the United Kingdom.

Although the Bank rate in the United Kingdom has important operational aspects, a review of the timing and the circumstances in which changes have been made, suggests that, whether related to domestic or external considerations, such changes have not usually been made in anticipation of changes in economic conditions or developments in the supply of money and credit. Rather it seems that movements in the rate have usually been made by way of adjustment to changes in economic and financial conditions which have already occurred.

Conditions in the United States are considerably different from those in the United Kingdom as well as those in Canada. The United States has no large nation-wide banking chains, but instead has a large number of separate banks throughout the various states, cities and towns. There are twelve Federal Reserve Banks situated in the twelve regions into which the country is divided for this purpose, and the various local member banks of the System frequently have resort to their regional Federal Reserve Bank for short-term credit. In Canada, practically all of such inter-bank and inter-regional requirements for funds are offset within the branch system of each of the chartered banks, and variations in the over-all cash requirements of each of the banks can normally be taken care of in the short-term money market (in which the Bank of Canada is a participant) on a day-to-day basis without the need for direct resort by any chartered bank to the Bank of Canada. In the United States, however, the Bank rates of the various Federal Reserve Banks — normally all at the same level, although at times differentials exist for short periods — are important operating factors in the regular business of the commercial banks of the country, and variations in the rate may have an important influence on the way in which the 6,200 individual banks which are members of the Federal Reserve System conduct their affairs, and particularly in the way in which adjustments are worked out in the relative positions of the individual banks, adjustments which would be settled by inter-branch accounting under the Canadian branch banking system. Access to Federal Reserve credit is not automatic or a matter of right; the “discount window” can be and on occasion is operated on a discretionary or selective basis. As an indication of the extent

to which the discount mechanism is used, there were 26,000 advances made by Federal Reserve Banks in 1959.

In addition, the United States is an important international financial centre and the level of the Federal Reserve Bank rate might in principle be thought to have some influence on the international movement of short-term funds. In practice, however, the Federal Reserve Bank rate has tended to follow the market rather than to lead it. The lending and deposit rates of the commercial banks are not tied to the Federal Reserve Bank rate and generally move independently of and frequently before any moves in the Federal Reserve Bank rate.

From time to time statements are made by the Board of Governors of the Federal Reserve System, or unofficial indications are given, in explanation of moves in the Bank rate, and such explanations have often specifically stated that the rate change is being made in order to adjust the Bank rate to changes in market rates. Generally the Bank rate is moved so as to be slightly higher than the rate on federal Government treasury bills, although there have been periods when the Bank rate has been slow to follow the market and has remained for some weeks or months lower than the rate on treasury bills. In general, cases where the Bank rate has been slow to follow market rates appear to be the result of stickiness or rigidity in the system rather than of a desire to exert a specific influence on the market or give a specific signal as to the state of the economy or as to Federal Reserve policy.

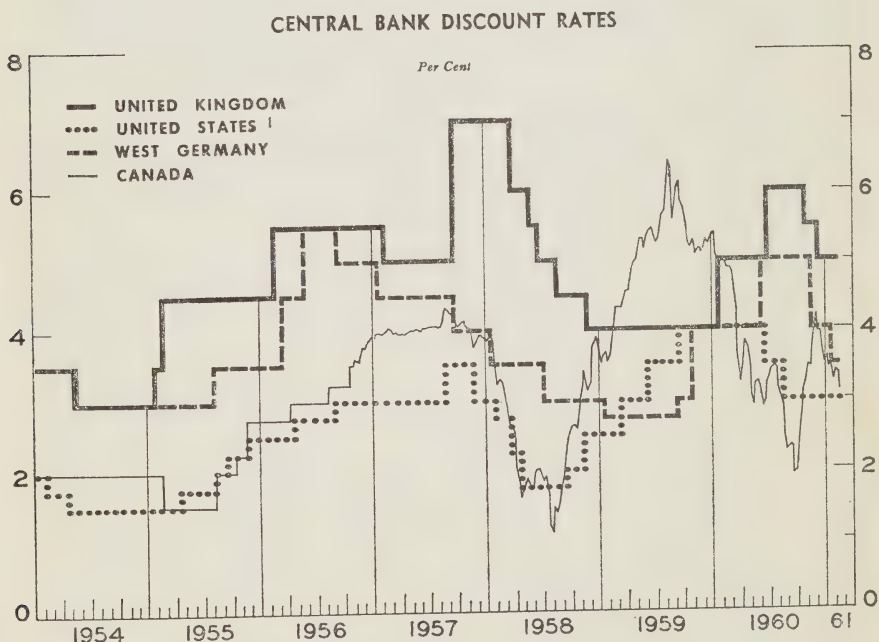
It is evident that conditions in different countries vary considerably and that endeavours to use the Bank rate to anticipate changes in economic conditions are not often made.

If a central bank made a practice of issuing statements or giving signals which were intended to change expectations in the market, so that everyone rushed to adjust his position accordingly, there would be sharper fluctuations and greater instability from time to time than under the more usual practice of keeping more or less in step with market developments. There would also be periods of doldrums while everyone waited for decisions by the central bank. Action of this character by a central bank in the context of a free

economy would be more appropriate under very special conditions rather than as a normal working practice.

Experience with the present system of establishing the Bank rate in Canada is considered from time to time, and changes will be made if specific proposals can be developed from which definite improvements can be expected. In general, the Bank's feeling is that the Bank rate system in Canada should be such as to make a maximum contribution to the smooth and efficient functioning of the money market and should not be expected to perform functions sometimes attributed to it in other countries.

The chart below compares movements in Bank rates over the past few years in Canada, the United States, the United Kingdom and West Germany.



1. Federal Reserve Bank of New York.

Text of Press Release Issued November 1, 1956

Ottawa, November 1, 1956. The Bank of Canada announced today that it was carrying a step further the policy announced in February 1955 of making its Bank Rate more flexible and responsive to changing conditions in the short-term money market. Henceforth and until further notice the Bank Rate, which is the minimum rate at which the central bank is prepared as a lender of last resort to make very

short term loans to chartered banks and money market dealers, will be at a fixed margin of $\frac{1}{4}$ of 1% above the latest weekly average tender rate for 91-day Treasury Bills. The average tender rate on Treasury Bills today was 3.34%, a decline of .03% as compared with a week ago. Accordingly the Bank Rate until next Thursday will be 3.59%.

As indicated on several occasions by the Bank, the Bank Rate is not changed arbitrarily or with a view to bringing about other interest rate changes. On the contrary, it has been desired since the development of the money market in Canada in late 1954 and early 1955 that the Bank Rate should be kept in line with other interest rates and should move when they do, but usually not otherwise. The present technical change in the method of setting the Bank Rate from week to week is intended to clarify this relationship and remove what has evidently been a source of some public misunderstanding.

Interest rates are determined in the market by the interplay between the supply of and the demand for loanable funds. Transactions take place every day in considerable volume; yields on marketable securities may change by small amounts from day to day, according to changes in the views of holders and of prospective buyers of various categories of securities as to the prices at which they are prepared to sell or buy. In general, interest rates have been rising for nearly two years because of a great growth in demand to borrow money, or to raise money by selling securities. The supply of money has increased, but the demand for it has grown even faster.

The Bank Rate has been increased from time to time in Canada as in other countries in line with this movement in market rates of interest. It would be clearly undesirable that banks and dealers should be able to borrow from the central bank at a lower cost than the yield on the most liquid form of Government securities. Such an encouragement to borrowing from the central bank would be apt to induce an inflationary increase in the volume of money.

Changes in Bank Rate in the past two years have taken place in steps of $\frac{1}{4}$ % or $\frac{1}{2}$ %. One result of having the Bank Rate change by smaller amounts each week in closer touch with other short-term interest rates is that it will direct public attention more to the basic factors in the monetary situation, that is, changes in the supply of and demand for money.

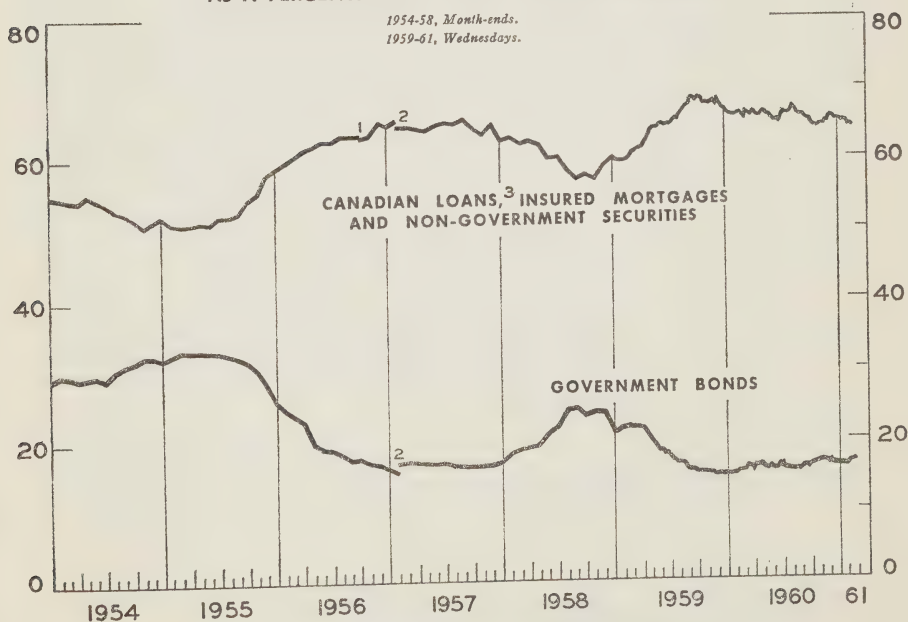
In the short-term money market the best indicator of current monetary conditions, as they may change from week to week, appears to be the average rate at the weekly tender for 91-day Treasury Bills. It is for this reason that the Bank Rate has followed fairly closely, though at varying intervals, changes in the Treasury Bill rate during 1955 and 1956. The relationship will be made more clear from now on with Bank Rate automatically changing by whatever fraction of 1% (very often less than $\frac{1}{20}$ of 1%) the average rate on Treasury Bills may vary up or down from week to week. It will, of course, be possible for Bank Rate to decline, since at times Treasury Bill rates may decline, without any implication that the central bank is expressing a view that a period of "easy money" has begun, or that economic conditions have deteriorated.

If at any time it appears that the Treasury Bill rate is not the best indicator of market conditions or if it is found that a different margin between market rates and Bank Rate would be more suitable, or that a change in monetary conditions should be more strikingly signalized, a change in the practice will be made and announced. For the time being, however, it is proposed, as indicated, to keep the Bank Rate at a fixed margin of $\frac{1}{4}$ of 1% above the average rate at the most recent weekly tender for Government of Canada Treasury Bills, the rate which is made public at approximately 1.00 p.m. each Thursday immediately following the tender.

Chartered Banks. Total chartered bank assets fluctuated within a comparatively narrow range until September 1960 and thereafter rose to a level at year-end of \$12,800 million, which was \$753 million or more than 6 per cent higher than at the close of 1959. The banks increased their loans (other than day-to-day loans and call loans) by \$393 million on the year and their holdings of Government bonds and other relatively liquid assets by \$414 million. Their holdings of insured mortgages were virtually unchanged, increasing by only \$3 million, while their holdings of provincial, municipal and corporate securities were reduced by \$58 million. At the close of the year 65.4 per cent of the chartered bank assets were in the form of loans, insured mortgages and non-Government securities, compared with 66.7 per cent a year earlier and 68.2 per cent in September 1959 which was the peak post-war ratio.

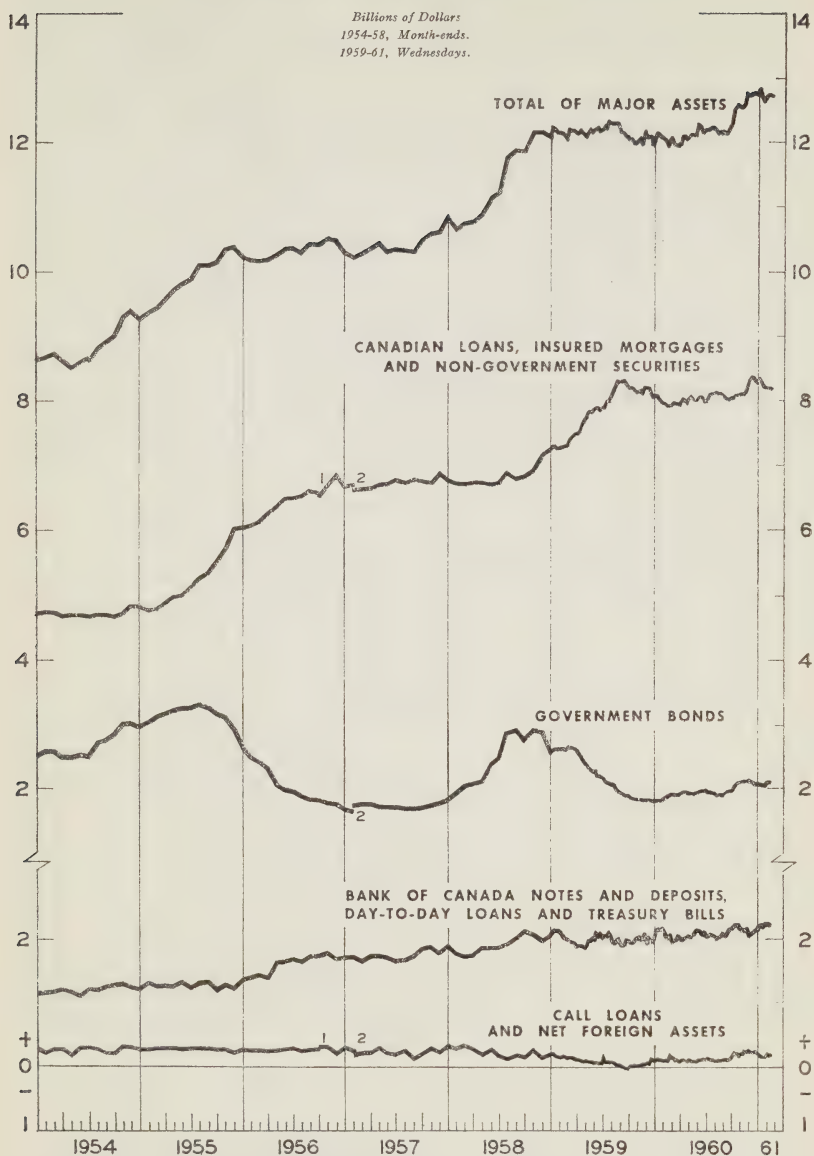
CHARTERED BANKS : CERTAIN ASSETS
AS A PERCENTAGE OF TOTAL REPORTED ASSETS

1954-58, Month-ends.
1959-61, Wednesdays.



1. Break reflects exclusion of certain foreign currency loans previously included in Canadian loans.
2. Breaks reflect reallocation of inner reserves consequent upon securities revaluation.
3. Excludes call loans.

CHARTERED BANK ASSETS



1. Breaks reflect transfer of certain loans from Canadian loans to net foreign assets.
2. Breaks reflect reallocation of inner reserves consequent upon securities revaluation.

Chartered Banks: Assets and Deposit Liabilities

(millions of dollars)

	As at Dec. 31 1960	Increase or decrease (-) during:				
		<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>Year 1960</u>
Assets						
Bank of Canada notes and deposits	992	-58	-64	7	155	40
Day-to-day loans	172	-13	69	9	6	71
Treasury bills	967	-6	-9	117	-109	-7
Government bonds	2,088	102	40	14	105	261
Net foreign assets	71	-20	23	—	47	50
Call loans	138	-36	41	-43	37	-1
Sub-total	4,428	-31	101	104	240	414
Loans to provinces	128	-21	2	10	99	89
Loans to municipalities	217	54	-81	13	—	-14
Loans to grain dealers	463	-26	-28	47	35	28
Canada Savings Bond loans	186	-61	-57	-48	164	-2
Loans to instalment finance companies	371	-6	-18	-66	52	-38
General loans	5,032	12	243	65	10	331
Insured mortgages	971	13	3	-4	-9	3
Provincial securities	324	4	-1	-23	-2	-22
Municipal securities	208	-3	-2	3	6	4
Corporate securities	473	-7	-4	-16	-12	-39
Sub-total	8,372	-40	56	-20	342	338
Total of foregoing assets	12,800	-70	157	84	582	753
Deposit Liabilities						
Personal savings deposits	7,215	169	72	169	-95	315
Government deposits	510	-43	-6	-314	469	106
Other deposits (less float)	4,313	-213	49	227	193	255
Total deposits (less float)	12,037	-88	116	81	567	677

A decline in bank loans of greater than normal seasonal proportions which had begun in September 1959 (following the sharp rise in the spring and summer of that year) continued during the early months of 1960, and was accompanied by an increase of over \$100 million in the chartered banks' holdings of Government bonds during the first quarter of the year; on balance their total assets declined during this period. The trend of bank loans turned upward again during the second quarter and the loan increase over the remainder of the year was appreciably greater than seasonal, especially in the fourth quarter. The banks also continued to add to their holdings of Government bonds and other relatively liquid assets. The increase in this class of assets was particularly large in the fourth quarter; as mentioned earlier, the banks added substantially to their Government bond holdings and loans to investment dealers following delivery of a new \$250 million issue of Government-guaranteed C.N.R. bonds on October 3, 1960.

The bulk of the increase in bank loans during 1960 was absorbed by personal borrowers, smaller businesses, farmers, grain dealers, provincial governments and non-business institutions. Personal loans against marketable securities and Government-guaranteed home improvement loans showed little change on the year, but all other personal loans — largely instalment-type loans in the nature of consumer credit under personal loan schemes, either unsecured or against chattel mortgages — increased by \$138 million. Loans of this type, which had expanded rapidly from early in 1958 to August 1959 but declined appreciably during the following six months, had regained their previous peak by mid-1960 and continued to grow strongly during the remainder of the year.

Business loans rose by \$137 million during 1960, with the whole of the increase (on balance) occurring in the aggregate amount of loans to business enterprises with authorized borrowing limits of less than \$1 million. Amounts outstanding in the category of largest business loans — those to businesses with authorized limits of \$5 million or more — were in the aggregate down from \$521 million to \$482 million over the year.

Loans to provincial governments increased by \$89 million on the year; most of this increase occurred during the fourth quarter in which borrowings in the securities markets by provinces were unusually low. Loans to instalment finance companies declined by \$38 million during 1960, and loans to municipalities also showed a decrease of \$14 million.

Chartered Banks

Classification of Loans by Category of Borrower

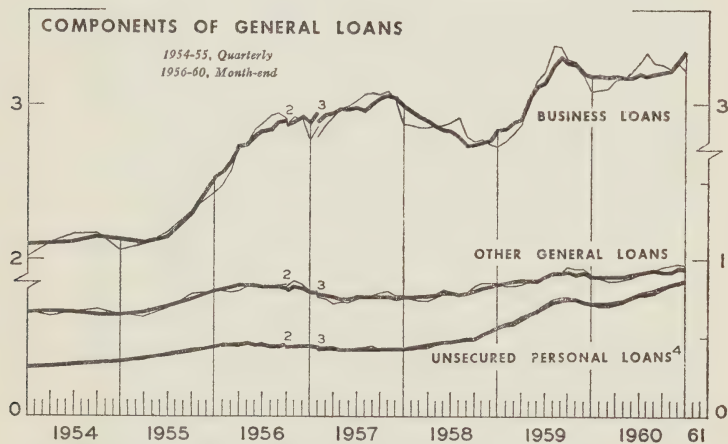
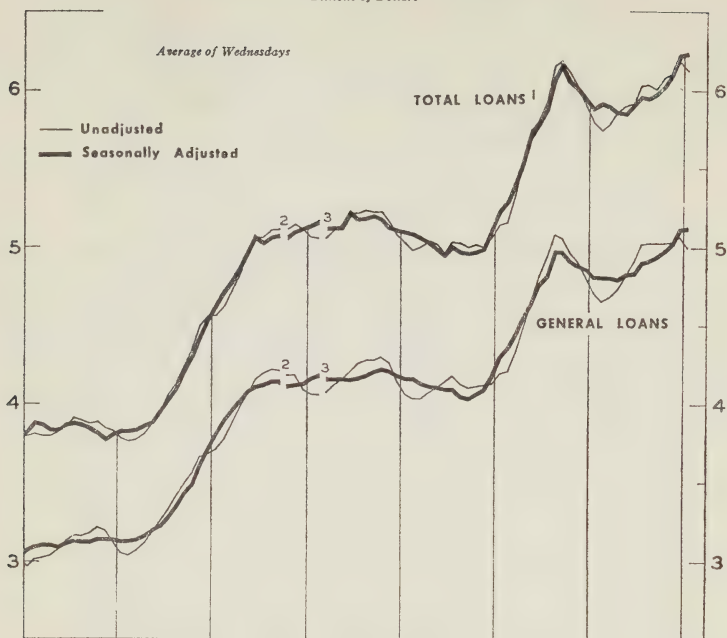
(millions of dollars)

	As at Dec. 31 1960	Increase or decrease (-) during year:					
	1955	1956 ⁽¹⁾	1957 ⁽¹⁾	1958	1959	1960	
General loans—							
Natural resource industries ⁽²⁾	382	30	146	52	-96	-16	9
Other manufacturing industry . . .	859	46	105	68	-48	82	—
Construction contractors . . .	309	91	35	-51	8	46	1
Public utilities, transportation . . . and communication . . .	217	73	11	24	-39	36	47
Merchandisers . . .	858	73	28	50	-25	122	37
Other business . . .	594	61	36	26	59	80	42
Total business loans . . .	3,220	374	360	168	-141	351	137
Personal loans, fully secured . . .	286	86	-13	-50	30	-5	4
Home improvement loans . . .	56	24	14	10	10	2	-4
Other personal loans . . .	857	90	-5	-4	133	166	138
Total personal loans . . .	1,199	199	-4	-44	173	163	138
Loans to farmers . . .	420	28	-9	—	19	22	31
Loans to non-business institutions	194	13	19	27	25	28	26
Total general loans . . .	5,032	614	366	150	75	564	331
Call loans to stockbrokers . . .	65	44	-23	-29	-4	18	-7
Call loans to investment dealers . . .	73	-8	3	64	-71	5	6
Loans to provinces . . .	128	22	12	-6	-20	-30	89
Loans to municipalities . . .	217	21	53	20	24	14	-14
Loans to grain dealers . . .	463	-43	11	47	-61	83	29
Canada Savings Bond loans . . .	186	16	6	7	-7	19	-2
Loans to instalment finance companies . . .	371	129	84	-104	71	57	-38
Total loans . . .	6,534	795	512	149	6	731	392

- (1) Changes are adjusted to exclude effect of discontinuities in loan series.
 (2) Mining, petroleum and forest products.

CHARTERED BANK LOANS

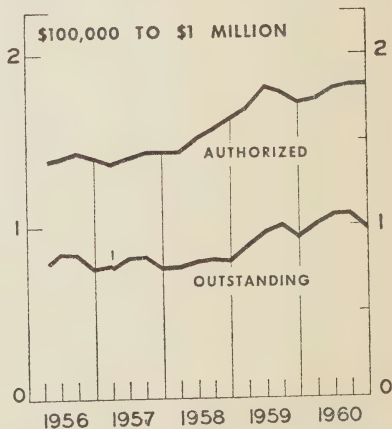
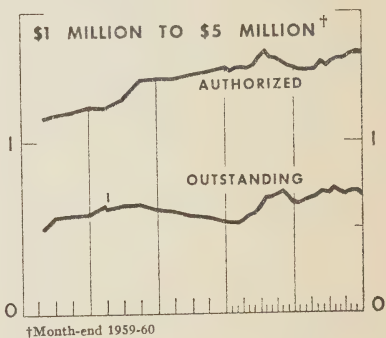
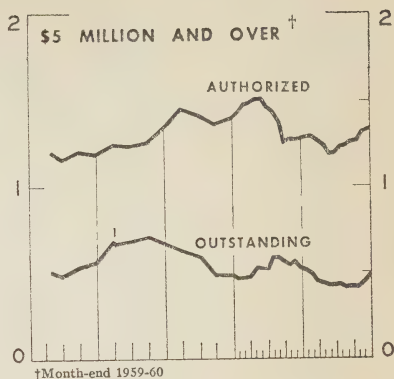
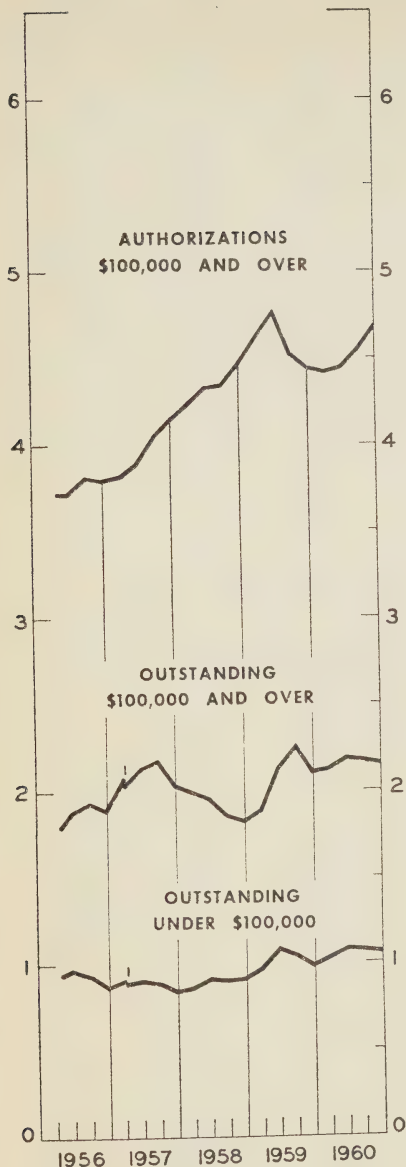
Billions of Dollars



1. Excludes call loans and loans for the purchase of Canada Savings Bonds.
2. Breaks reflect exclusion of certain foreign currency loans previously included in these series.
3. Breaks reflect reallocation of inner reserves consequent upon securities revaluation.
4. Excludes home improvement loans.

BUSINESS LOANS, CLASSIFIED BY SIZE OF AUTHORIZED LINES OF CREDIT

Quarterly — Billions of Dollars



1. Breaks reflect reallocation of inner reserves consequent upon securities revaluation.

Business Loans Classified by Size of Authorized Lines of Credit

(millions of dollars)

Amounts Outstanding Under Authorized Lines of Credit of:

	<u>Less than \$100,000</u>	<u>\$100,000- \$999,999</u>	<u>\$1,000,000- \$4,999,999</u>	<u>\$5,000,000 and over</u>	<u>Total</u>
End of					
1956-Apr.	940	794	498	501	2,733
June	969	845	559	477	2,849
Sept.	933	841	574	527	2,874
Dec.	869	752	580	564	2,765
1957-Mar. ⁽¹⁾	885	758	613	663	2,919
June	901	817	634	680	3,032
Sept.	888	824	639	708	3,059
Dec.	841	760	604	668	2,874
1958-Mar.	862	765	599	626	2,853
June	914	798	573	594	2,878
Sept.	904	812	563	481	2,759
Dec.	911	802	536	483	2,732
1959-Mar.	973	879	541	473	2,865
June	1,080	970	628	526	3,205
Sept.	1,037	1,001	698	553	3,288
Dec.	978	934	650	521	3,083
1960-Mar.	1,028	1,007	670	446	3,150
June	1,084	1,063	700	419	3,267
Sept.	1,074	1,065	698	408	3,245
Dec.	1,064	986	689	482	3,220

Authorized Lines of Credit

	<u>\$100,000- \$999,999</u>	<u>\$1,000,000- \$4,999,999</u>	<u>\$5,000,000 and over</u>	<u>Total \$100,000 and over</u>
End of				
1956-Apr.	1,386	1,135	1,196	3,717
June	1,409	1,156	1,151	3,716
Sept.	1,434	1,174	1,198	3,805
Dec.	1,408	1,201	1,179	3,788
1957-Mar.	1,370	1,202	1,240	3,812
June	1,402	1,247	1,229	3,878
Sept.	1,438	1,355	1,256	4,048
Dec.	1,440	1,361	1,347	4,148
1958-Mar.	1,438	1,361	1,427	4,226
June	1,518	1,390	1,413	4,320
Sept.	1,571	1,409	1,359	4,339
Dec.	1,629	1,432	1,396	4,457
1959-Mar.	1,699	1,431	1,486	4,616
June	1,811	1,498	1,455	4,763
Sept.	1,777	1,491	1,251	4,518
Dec.	1,719	1,442	1,278	4,438
1960-Mar.	1,740	1,416	1,257	4,413
June	1,797	1,446	1,187	4,430
Sept.	1,820	1,478	1,251	4,549
Dec.	1,824	1,519	1,333	4,677

(1) Continuity of the series is affected by reallocation of reserves consequent upon securities revaluation.

Business loan authorizations which are reported only for amounts of \$100,000 or more, and which in total had amounted to \$4,763 million at mid-1959, declined to \$4,413 million by March 31, 1960 and rose again thereafter to reach a total of \$4,677 million by year-end. The increase was particularly sharp in the second half of 1960 and was concentrated in the category of loan accounts in excess of \$5 million.

Currency and Chartered Bank Deposits. The total of currency outside banks and chartered bank deposits rose by \$721 million or by 5.5 per cent during 1960 to a level of \$13,914 million on December 31st. Personal savings deposits, which showed little growth during 1959, renewed their expansion in 1960 and were \$315 million higher at year-end than twelve months previously.

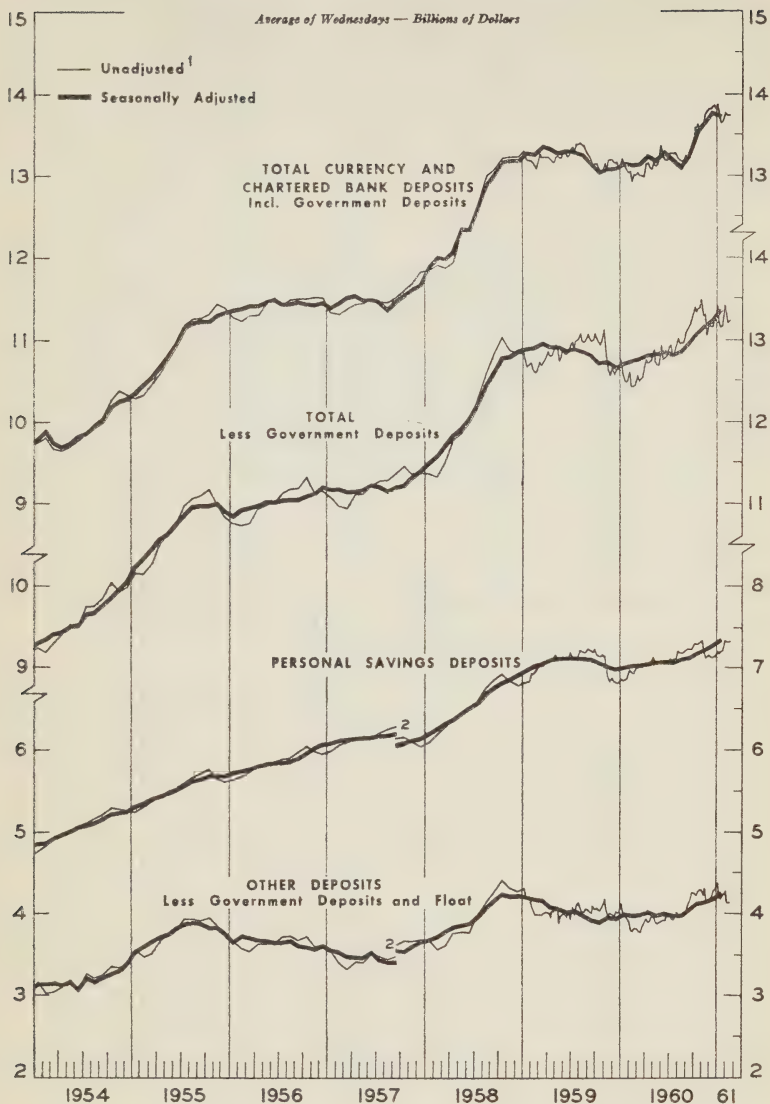
Currency Outside Banks and Chartered Bank Deposits

(millions of dollars)

	As at Dec. 31 1960	Increase or decrease (-) during:				
		<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1960 Year</u>
Held by general public						
Currency outside banks						
Notes	1,732	-60	113	-6	-20	27
Coin	144	-1	10	3	5	17
Personal savings deposits	7,215	169	72	169	-95	315
Other deposits ⁽¹⁾	4,313	-213	49	227	193	255
Total	13,404	-105	244	394	82	615
Government deposits	510	-43	-6	-314	469	106
Total currency and chartered bank deposits ⁽¹⁾ .	13,914	-148	238	79	552	721

(1) Less total float.

CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS



1. Plotted weekly 1959-61.

2. Breaks reflect reclassification at Sept. 30, 1957, of certain deposits from "Personal Savings Deposits" to "Other Deposits".

Bank of Canada Note Liabilities

(as at December 31st—thousands of dollars)

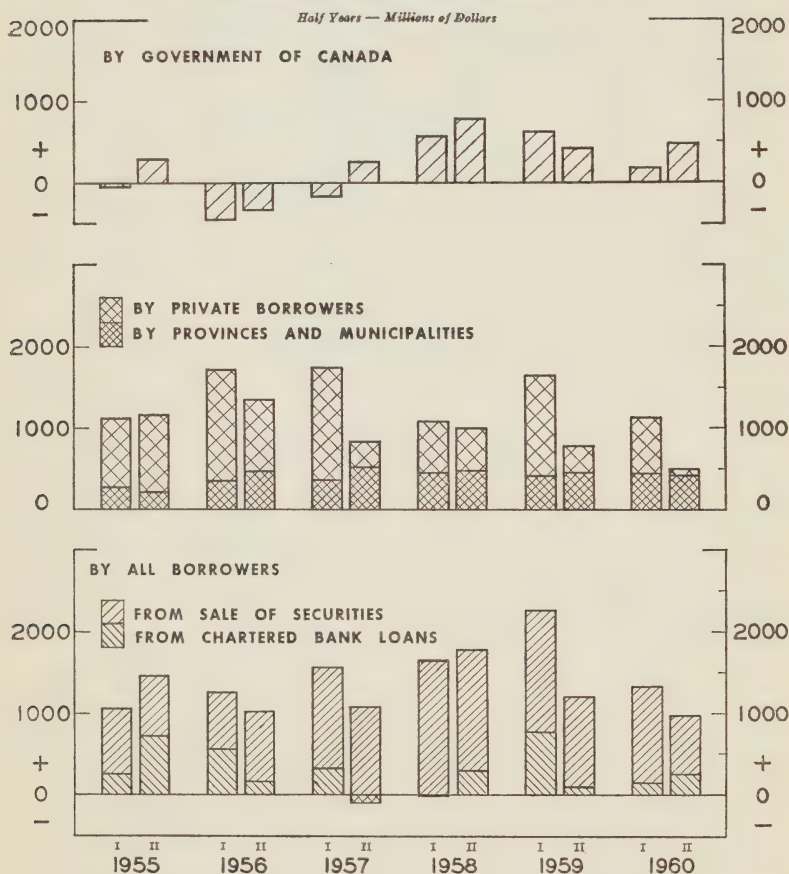
Notes issued by the Bank of Canada	<u>1950</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
\$1 . . .	50,273	72,589	75,873	78,402	81,733
2 . . .	37,279	51,952	53,597	55,076	57,622
5 . . .	111,731	139,839	143,010	144,702	149,545
10 . . .	429,886	528,575	533,078	521,309	519,559
20 . . .	346,060	582,163	627,814	647,276	676,549
25 . . .	47	46	46	46	46
50 . . .	108,735	134,803	143,606	145,461	147,596
100 . . .	254,457	365,479	391,629	395,383	396,328
500 . . .	160	51	49	46	41
1,000 . . .	11,489	14,661	15,928	19,549	19,547
Total . . .	1,350,117	1,890,159	1,984,630	2,007,250	2,048,567
Chartered banks' notes*	12,487	8,799	8,655	8,519	8,423
Dominion of Canada notes*	4,702	4,648	4,645	4,641	4,638
Provincial notes* . . .	28	28	28	28	28
Defunct banks' notes* . . .	88	88	88	88	88
Total Bank of Canada note liabilities	1,367,422	1,903,721	1,998,046	2,020,525	2,061,743
Held by:					
Chartered banks . . .	231,306	348,606	338,176	315,703	329,841
Others	1,136,116	1,555,115	1,659,870	1,704,822	1,731,902

*These are note issues which are in the process of being retired and the liability for them has been taken over by the Bank of Canada from the original issuers.

Capital Market. The tables and charts which follow provide a rough measure of some of the major flows of funds through capital and credit markets, as reflected in net new issues of securities and changes in chartered bank loans including their insured mortgage loans.

The chart below and the table on pages 78 and 79 show that the total amount of funds raised through the sale of net new issues of securities and from chartered bank loans, which had increased each year from 1957 to 1959, declined substantially in 1960. A large

FUNDS RAISED BY CANADIAN BORROWERS FROM SECURITIES MARKETS AND CHARTERED BANKS



part of this decline occurred in funds raised by private borrowers who borrowed less in 1960 than in any year since 1954. Funds raised in these markets by the Government of Canada were considerably lower than a year ago, while provincial borrowing increased slightly from 1959 to 1960 and municipalities raised somewhat less than in 1959. The natural resource industries, which had been heavy borrowers in the period from 1955 to 1957, on balance repaid debt in 1960 as they had in 1959, while other manufacturing and business concerns raised a considerably smaller volume of funds in 1960 than in 1959. The total amount of funds absorbed by the personal sector (including mortgage borrowing from chartered banks) was also considerably lower than in 1959. The decline in the total amount of funds raised in 1960 was evident both in the securities markets and in borrowings from the chartered banks.

This tabulation does not include mortgage borrowing from financial institutions other than the chartered banks, which is summarized below, nor does it include mortgage borrowing from other lenders, trade credit, or borrowing from non-institutional sources other than through new issues of securities. It excludes transfers of funds within the general public sector through the sale of existing securities, and the funds that flow from retained earnings directly into physical investment without entering the capital market at all.

Mortgage Lending by Financial Institutions Other Than Chartered Banks*

(millions of dollars)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Life insurance companies in Canada						
Estimated gross mortgage disbursements .	470	510	450	400	510	530
Less estimated mortgage repayments .	175	200	205	240	250	275
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net increase in mortgage holdings . . .	295	310	245	160	260	255
Net increase in mortgage holdings of:						
Trust and loan companies	86	82	24	106	112	n.a.
Credit unions	40	25	26	33	43	n.a.
Quebec savings banks	7	10	11	10	7	3
Trusteed pension funds	n.a.	n.a.	n.a.	51	49	n.a.

*Other loans to individuals by life insurance companies, credit unions and Quebec savings banks which are not covered in the tabulation on pages 78 and 79, are shown in the table on page 91.

Funds Raised by Canadian Borrowers From Securities Markets and Chartered Banks

(millions of dollars)

	Funds Raised from			Government of Canada		
	Securities Markets ⁽¹⁾	Chartered Bank Loans ⁽²⁾	Grand Total	Net New Issues of Securities	Net Dis-investment (+) by Govt. Accts.	Total
Calendar Years						
1955	1,558	962	2,520	535	-287	248
1956	1,553	724	2,277	-766	-27	-793
1957	2,466	201	2,667	-70	+151	82
1958	3,161	292	3,453	1,252	+109	1,360
1959	2,619	867	3,486	723	+335	1,058
1960	1,918	398	2,316	612	+57	669
Half-Years						
1955—I	802	256	1,058	-48	-6	-54
II	756	706	1,463	582	-281	301
1956—I	694	572	1,266	-341	-116	-457
II	860	152	1,011	-424	+89	-336
1957—I	1,258	317	1,575	-333	+157	-176
II	1,208	-116	1,092	263	-6	258
1958—I	1,673	-12	1,661	338	+237	575
II	1,488	304	1,792	914	-129	785
1959—I	1,514	764	2,277	379	+251	630
II	1,106	103	1,209	344	+84	428
1960—I	1,178	148	1,326	40	+144	184
II	739	251	990	573	-87	485

(1) Net new issues of securities plus disinvestment by Government accounts.

(2) Increase in loans to provincial and municipal governments, instalment finance companies, grain dealers, general loans and insured mortgage loans.

(3) Classified by ultimate borrower.

Funds Raised by

Provincial Govts.	Municipal Govts.	Private Borrowers⁽²⁾			
		Natural Resource Industries⁽⁴⁾	Other Mfg. and Business	Personal⁽⁵⁾	Total
232	255	406	724	656	1,786
552	277	716	1,050	476	2,242
582	300	515	1,081	107	1,703
592	347	195	520	439	1,154
540	340	-42	1,074	516	1,548
554	301	-65	586	270	791
112	160	222	413	204	839
120	94	184	311	452	947
195	151	283	838	256	1,377
357	125	433	212	220	865
185	178	399	998	-10	1,387
397	121	116	82	117	315
270	177	115	412	112	639
322	170	80	108	327	515
262	149	14	981	242	1,237
279	191	-56	93	274	311
281	169	39	549	104	692
273	132	-104	37	166	99

(4) Uranium, non-ferrous metals and non-metallic mining, petroleum and forest products.

(5) Increase in chartered bank personal loans and insured mortgage loans, and finance company and retail dealer credit extended to consumers.

Increases in Holdings of Certain Financial Assets by the General Public*

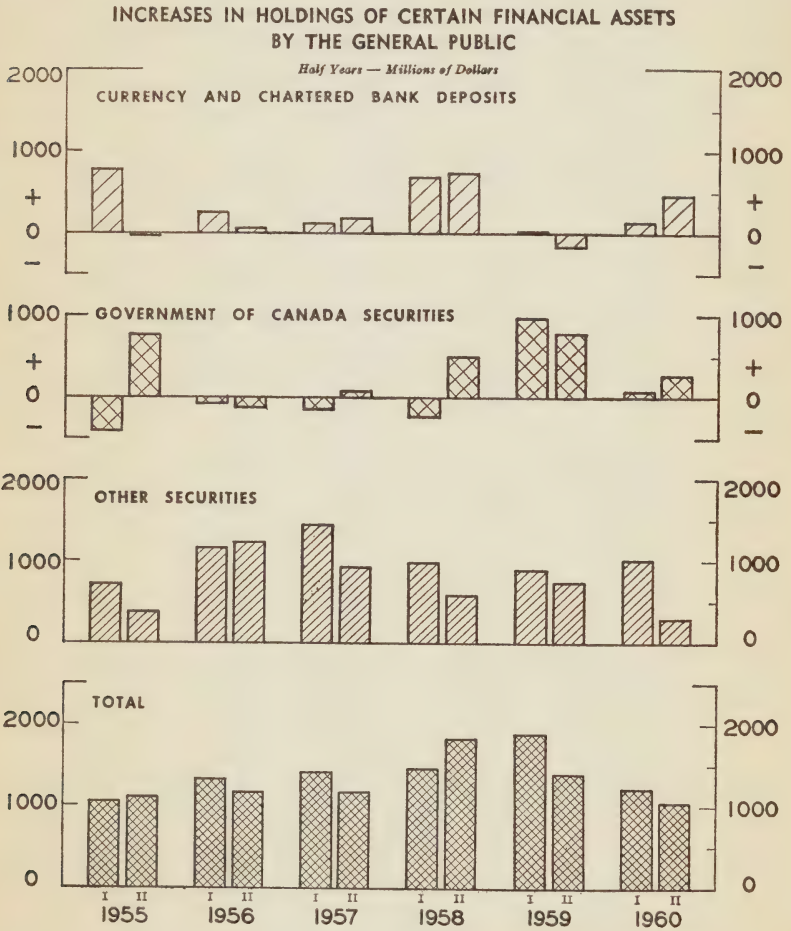
(millions of dollars)

					Securities				
					Government of Canada Securities				
Calendar Year					Treasury Bills	Other Market Issues	Canada Savings Bonds	Sub- Total	Provincial Bonds
1955					286	—289	343	340	151
1956					—209	—102	108	—203	593
1957					4	—185	108	—73	591
1958					125	—97	246	274	482
1959					341	1,100	317	1,757	639
1960					—206	179	382	355	487
Half Years									
1955—I	.	.	.	.	144	—431	—130	—417	102
II	.	.	.	.	142	142	473	757	49
1956—I	.	.	.	.	—41	102	—140	—79	282
II	.	.	.	.	—168	—204	248	—124	311
1957—I	.	.	.	.	19	57	—226	—151	284
II	.	.	.	.	—15	—241	334	78	307
1958—I	.	.	.	.	—50	5	—178	—223	279
II	.	.	.	.	175	—102	424	498	203
1959—I	.	.	.	.	256	838	—128	966	312
II	.	.	.	.	85	262	444	791	328
1960—I	.	.	.	.	—164	392	—153	75	297
II	.	.	.	.	—43	—213	535	280	190

*General public is defined to include all holders other than the Bank of Canada, chartered banks and Government accounts. It includes, for example, corporations, financial institutions other than chartered banks, provincial and municipal government accounts and non-residents, as well as resident persons.

<u>Municipal Bonds</u>	<u>Corporate and Other Bonds</u>	<u>Finance Co. Short-term Paper</u>	<u>Corporate Stocks</u>	<u>All Securities</u>	<u>Currency and Chartered Bank Deposits</u>	<u>Total Increase in Period</u>
193	218	59	462	1,423	743	2,166
257	758	94	689	2,188	312	2,500
291	934	48	516	2,306	308	2,614
297	603	— 111	311	1,857	1,427	3,284
316	160	135	406	3,414	— 138	3,276
312	303	10	189	1,656	615	2,270
103	152	30	322	292	765	1,057
90	65	29	140	1,131	— 22	1,109
130	340	101	310	1,083	251	1,334
127	419	— 7	379	1,105	61	1,166
125	737	91	218	1,304	120	1,424
166	197	— 43	297	1,002	188	1,190
154	448	— 9	120	768	692	1,460
143	155	— 101	192	1,089	735	1,823
107	56	124	300	1,865	15	1,880
209	104	11	106	1,549	— 153	1,396
201	311	52	143	1,080	139	1,219
110	— 8	— 43	46	576	476	1,051

The chart below and the table on pages 80 and 81 show that the rate of increase in the general public's combined holdings of currency, chartered bank deposits and securities continued the slowing down which started in mid-1959. In the second half of 1960 the general public added substantially to their holdings of currency and chartered bank deposits and Canada Savings Bonds, their holdings of provincial and municipal bonds and corporate stocks increased moderately, and their holdings of treasury bills and marketable Government bonds, corporate bonds and finance company short-term paper declined.



Securities Markets. The total amount of net new issues of securities declined to \$1,861 million in 1960 from \$2,284 million in 1959 and \$3,053 million in 1958. New money raised by each of the three levels of government declined over this period; net new issues of Government of Canada securities declined from \$723 million in 1959 to \$612 million in 1960, of provincial bonds from \$570 million to \$465 million and of municipal bonds from \$326 million to \$315 million. Net new issues of corporate securities declined in total from 1959 to 1960 with an increase in net new issues of corporate bonds from \$108 million in 1959 to \$251 million in 1960 being more than offset by declines in net new issues of corporate stocks from \$406 million to \$189 million and in finance company short-term paper from \$135 million to \$10 million. Net new issues of securities payable both in Canadian dollars and in other currencies declined from 1959 to 1960; net new issues of provincial, municipal and corporate bonds payable in foreign currencies declined from \$371 million to \$117 million. A table showing the details of net new issues of securities for the years 1957 to 1960 appears on pages 84 and 85.

The industrial classification of net new issues of corporate securities which appears in the table on page 86 shows that there was a growing amount of net retirements of uranium securities in 1960 and smaller net retirements of securities of industries producing non-ferrous metals and their products and wood and paper and their products. The amount of net new issues of securities of utilities other than pipelines, instalment finance and small loan companies and other financial corporations declined from 1959 to 1960 while there were slight increases in net new issues of securities of pipeline companies and merchandisers.

Details of the distribution of holdings of Government of Canada securities are shown in the table on page 87 and the chart on page 88.

Net New Issues of Securities⁽¹⁾

(millions of dollars)

	Payable in Canadian Dollars Only			
	1957	1958	1959	1960
Government of Canada securities ⁽²⁾				
Bonds	-52	1,383	289	705
Treasury bills	50	-130	582	-92
Total	-2	1,253	871	613
Non-Government securities				
Provincial bonds ⁽²⁾	545	469	331	445
Municipal bonds ⁽²⁾	181	208	211	232
Corporate bonds	568	477	91	237
Other bonds ⁽³⁾	3	4	17	19
Total bonds	1,297	1,157	649	933
Finance co. short-term paper ⁽⁴⁾	48	-111	135	10
Total bonds & short-term paper	1,346	1,047	785	942
Corporate stocks ⁽⁵⁾				
Preferred	121	25	71	35
Common	425	284	333	152
Total corporate stocks	546	309	404	188
Total non-Government securities	1,892	1,356	1,189	1,130
Total	1,890	2,609	2,060	1,743

(1) Gross new issues less retirements. 1960 figures are preliminary estimates.

(2) Includes guaranteed securities.

(3) Consists of bonds of religious and other institutions.

(4) Paper with an original term to maturity of one year or less.

(5) Canadian stock issues with dividends payable in U.S. dollars are shown under "Other Currencies".

Payable in Other Currencies				Total			
<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
-68	-2	-149	-1	-120	1,382	141	704
—	—	—	—	50	-130	582	-92
<u>-68</u>	<u>-2</u>	<u>-149</u>	<u>-1</u>	<u>-70</u>	<u>1,252</u>	<u>723</u>	<u>612</u>
44	144	239	20	589	612	570	465
97	115	115	84	278	323	326	315
382	184	17	13	951	661	108	251
—	—	—	—	3	4	17	19
<u>523</u>	<u>443</u>	<u>371</u>	<u>117</u>	<u>1,820</u>	<u>1,600</u>	<u>1,020</u>	<u>1,050</u>
—	—	—	—	48	-111	135	10
<u>523</u>	<u>443</u>	<u>371</u>	<u>117</u>	<u>1,869</u>	<u>1,489</u>	<u>1,155</u>	<u>1,060</u>
-33	—	—	—	88	25	71	35
2	2	2	1	427	286	335	153
<u>-31</u>	<u>2</u>	<u>2</u>	<u>1</u>	<u>516</u>	<u>311</u>	<u>406</u>	<u>189</u>
492	445	372	118	2,384	1,801	1,561	1,248
425	444	224	118	2,315	3,053	2,284	1,861
<u><u>425</u></u>	<u><u>444</u></u>	<u><u>224</u></u>	<u><u>118</u></u>	<u><u>2,315</u></u>	<u><u>3,053</u></u>	<u><u>2,284</u></u>	<u><u>1,861</u></u>

Net New Issues of Corporate Securities⁽¹⁾

Industrial Classification of Bonds, Stocks and Finance Company Short-Term Paper (millions of dollars)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Non-financial corporations						
Natural resource industries						
Uranium mines.	68	122	65	44	-30	-68
Other non-ferrous metal mines and products	155	51	167	39	-15	-7
Non-metallic mines and products . .	27	70	11	19	6	1
Petroleum and products	165	203	177	153	28	14
Wood and paper and products . . .	-40	123	43	36	-16	-14
Sub-total	<u>375</u>	<u>570</u>	<u>463</u>	<u>291</u>	<u>-26</u>	<u>-74</u>
Other manufacturing industries						
Iron and steel and products	45	89	25	30	32	2
Other manufactured products . . .	32	78	41	41	1	46
Sub-total	<u>77</u>	<u>168</u>	<u>66</u>	<u>71</u>	<u>33</u>	<u>48</u>
Utilities						
Railways and telegraphs.	-31	-21	-20	57	-25	-9
Telephones	80	146	168	130	166	134
Pipelines	8	137	267	105	-10	44
Other utilities	59	113	284	200	131	40
Sub-total	<u>115</u>	<u>374</u>	<u>700</u>	<u>492</u>	<u>262</u>	<u>209</u>
Merchandisers	70	96	35	25	44	56
Other	16	23	2	5	9	20
Total	<u>653</u>	<u>1,229</u>	<u>1,266</u>	<u>884</u>	<u>322</u>	<u>258</u>
Financial corporations						
Instalment finance and small loan companies.	92	221	138	-115	192	108
Other finance, insurance and real estate .	96	127	110	93	135	82
Total	<u>188</u>	<u>348</u>	<u>249</u>	<u>-22</u>	<u>327</u>	<u>191</u>
Total	<u>840</u>	<u>1,577</u>	<u>1,514</u>	<u>862</u>	<u>649</u>	<u>449</u>

(1) Does not include issues guaranteed by provincial governments (e.g., net new issues of provincial hydro commissions which amounted to \$120 million in 1955, \$261 million in 1956, \$315 million in 1957, \$276 million in 1958, \$167 million in 1959, and \$184 million in 1960.)

Government of Canada Direct and Guaranteed Securities Distribution of Holdings

(par values, millions of dollars)

		Increase or decrease (-) during:					
		1960				Year	Year
		1Q	2Q	3Q	4Q	1960	1959
As at Dec. 31/60							
Bank of Canada							
Treasury bills	407	93	-6	-57	68	98	273
Other market issues	2,337	-172	71	71	-1	-31	-266
Total	2,744	-79	65	13	68	67	7
Chartered Banks							
Treasury bills	974	-8	-11	117	-108	-10	27
Other market issues	2,084	105	36	11	105	256	-737
Total	3,057	97	25	128	-4	247	-710
Government Accounts							
Unemployment Insurance Fund							
Treasury bills	52	-17	2	47	-2	29	-31
Other market issues	264	-95	-66	-16	-4	-181	-121
Total	316	-111	-65	31	-6	-151	-152
Securities Investment Account							
Treasury bills	—	—	—	—	—	—	-25
Other market issues	101	—	—	96	-45	51	-50
Total	101	—	—	96	-45	51	-75
Other Government Accounts							
Treasury bills	4	—	-2	-3	1	-3	-3
Other market issues	445	22	11	5	9	47	-106
Total	449	22	10	2	10	44	-109
General Public⁽¹⁾							
Treasury bills	549	-21	-143	-104	61	-206	341
Other market issues	6,937	336	55	-173	-40	179	1,100
Total	7,485	316	-88	-277	22	-28	1,440
of which:							
non-residents ⁽²⁾	803	32	-3	30	22	81	90
life insurance cos. ^{(2) (3)}	700	29	-11	11	54	83	60
all other holders ^{(1) (2)}	5,982	255	-74	-318	-54	-192	1,290
Canada Savings Bonds	3,594	-69	-84	-57	592	382	317
Total	11,080	247	-172	-334	614	355	1,757
Total Outstanding							
Treasury bills	1,985	48	-160	—	20	-92	582
Other market issues	12,168	197	108	-7	25	322	-181
Canada Savings Bonds	3,594	-69	-84	-57	592	382	317
Total	17,747	176	-136	-64	637	612	718

(1) Residual. Includes investment dealers.

(2) Preliminary estimates.

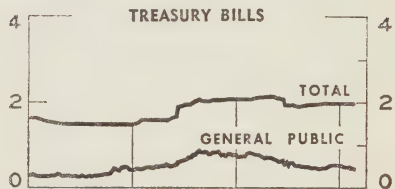
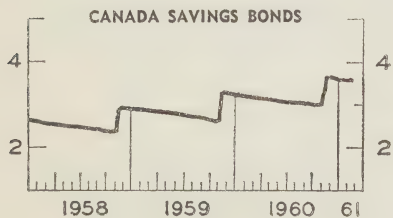
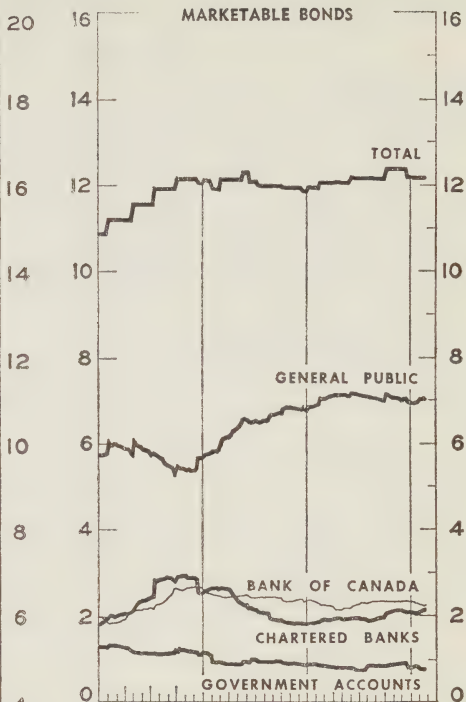
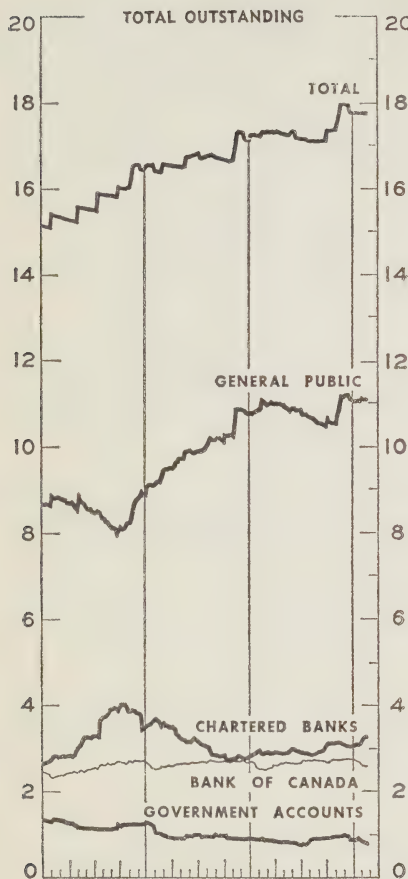
(3) Holdings in respect of Canadian operations.

GOVERNMENT OF CANADA DIRECT AND GUARANTEED SECURITIES

DISTRIBUTION OF HOLDINGS

for values, billions of dollars

Wednesdays



Consumer Credit and Finance Companies. The total outstanding amount of credit extended to consumers by finance companies and retail dealers and of chartered bank unsecured personal loans (that is, personal loans other than those fully secured by marketable securities and home improvement loans) increased by \$267 million in 1960 or by 9 per cent. The increase was \$341 million in 1959, \$195 million in 1958 and \$54 million in 1957.

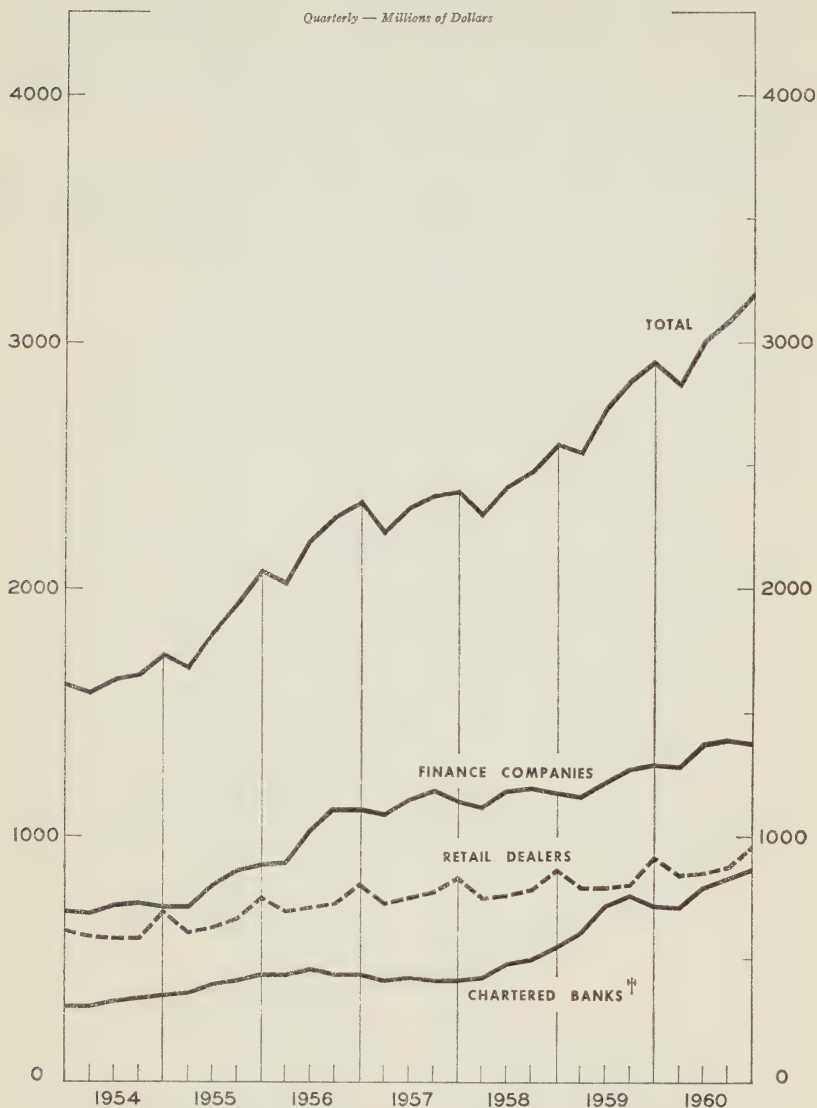
In 1960 the total of finance company credit and retail dealer credit increased by \$129 million compared with \$175 million in 1959, with small loan companies accounting for about half of the total increase in non-bank credit each year.

Chartered bank unsecured personal loans rose sharply during the last nine months of 1960, after declining seasonally in the first quarter of the year. The total increase in these loans in 1960 amounted to \$138 million or 19 per cent and followed an increase of \$166 million or 30 per cent in 1959.

In addition to the increase of \$19 million in instalment finance companies' credit outstanding on consumers' goods in 1960 their outstanding loans to finance other retail sales (commercial and industrial goods) increased by \$35 million and their holdings of wholesale paper increased by \$37 million. Their total receivables thus rose by \$92 million in 1960 compared with an increase of \$130 million in 1959.

The chart on page 90 and the table on page 91 show the trends in the major components of consumer credit from 1954 to 1960.

FINANCE COMPANY AND RETAIL DEALER CREDIT EXTENDED TO CONSUMERS AND CHARTERED BANK UNSECURED PERSONAL LOANS†



Consumer Credit and Other Loans to Individuals⁽¹⁾

(millions of dollars)

	Balances Outstanding at Dec. 31/60	Increase or decrease (-) in balances outstanding					
		1955	1956	1957	1958	1959	1960
Finance company and retail dealer credit extended to consumers							
Instalment finance companies	825	107	157	24	-12	38	19
Small loan companies	549	64	77	6	39	83	65
Department stores	364	41	17	18	20	32	50
Other retail dealers	596	25	30	10	15	22	-5
Sub-total	2,334	237	281	58	62	175	129
Chartered bank unsecured personal loans⁽²⁾							
	857	90	-5 ⁽⁴⁾	-4 ⁽⁵⁾	133	166	138
Total	3,191	327	276	54	195	341	267

Other loans mainly to individuals for non-business purposes

Chartered banks							
Secured personal loans ⁽³⁾	286	86	-13 ⁽⁴⁾	-50 ⁽⁵⁾	30	-5	4
Government-guaranteed home improvement loans							
	56	24	14	10	10	2	-4
Life insurance co. policy loans	345	10	20	25	10	18	22
Quebec savings banks	14	1	3	2	-1	1	1
Credit unions	*	23	52	32	62	74	*

(1) Excludes mortgages.

(2) Excludes personal loans fully secured by marketable bonds and stocks and home improvement loans.

(3) Fully secured by marketable bonds and stocks.

(4) Changes are adjusted to exclude effect of reclassification of foreign currency loans at September 30, 1956.

(5) Changes are adjusted to exclude effect of reallocation of inner reserves at January 31, 1957.

*Not available. Credit unions' non-mortgage loans outstanding at December 31, 1959, amounted to \$394 million.

Housing Finance. The total value of residential mortgage loans approved by lending institutions and Central Mortgage and Housing Corporation declined to an estimated \$717 million in 1960, compared with \$1,018 million in 1959 and \$1,199 million in 1958. The chartered banks virtually withdrew from this field of lending late in 1959 and remained inactive in 1960. The level of direct lending by C.M.H.C. was substantially below that of 1959 until late in the year when a number of policy changes resulted in the easing of terms for direct loans from C.M.H.C. Loan approvals under the National Housing Act made by life insurance companies and trust and loan companies rose sharply in the late summer and continued at a high level to the end of the year. Life insurance company approvals of conventional mortgage loans declined in 1960 from the very high level of 1959, but total mortgage loan approvals by both life insurance companies and trust and loan companies were higher in 1960 than in 1959. No figures are available regarding the flow of mortgage approvals by lenders other than these institutions and C.M.H.C. (Changes in mortgage holdings of financial institutions other than chartered banks are summarized in a table on page 77).

**Mortgage Loans Approved by Lending Institutions and
Central Mortgage and Housing Corporation on
New Non-Farm Residential Construction**

(millions of dollars)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Lending Institutions						
Chartered banks—NHA loans	326	158	173	300	175	1
Life insurance companies						
NHA loans	271	227	96	171	113	177
Other loans	157	190	155	181	239	201
Total	<u>428</u>	<u>417</u>	<u>251</u>	<u>353</u>	<u>352</u>	<u>378</u>
Trust, loan and other companies						
NHA loans	42	40	9	47	19	64
Other loans	78	65	84	109	104	106
Total	<u>120</u>	<u>105</u>	<u>93</u>	<u>157</u>	<u>124</u>	<u>169</u>
Total	<u>874</u>	<u>680</u>	<u>517</u>	<u>810</u>	<u>651</u>	<u>549</u>
Central Mortgage and Housing Corporation	18	20	235	389	367	168
Total-Lending Institutions and Central Mortgage and Housing Corporation	<u>892</u>	<u>700</u>	<u>753</u>	<u>1,199</u>	<u>1,018</u>	<u>717</u>

Interest Rates. Interest rates in the Canadian securities market declined from early in 1960 through to September apart from minor and short-lived interruptions and then rose again until late in the year. Yields on long-term Government bonds, which had reached a peak in the latter part of 1959 or early in 1960, declined until September 1960, and then rose again in the fourth quarter. Treasury bill yields, which had reached a peak of 6.16 per cent in August 1959, declined sharply during the first nine months of 1960 reaching a low point of 1.68 per cent in September, rose to 3.95 per cent at the beginning of December and declined to 3.25 per cent by the end of the year.

Yields on long-term provincial, municipal, public utility and industrial bonds, which had risen steadily from the second quarter of 1958 to late 1959 or early 1960, declined until the end of the third quarter and then rose again to the end of the year. Yields on common stocks rose irregularly from the end of July 1959 until early August 1960 and declined in the fourth quarter.

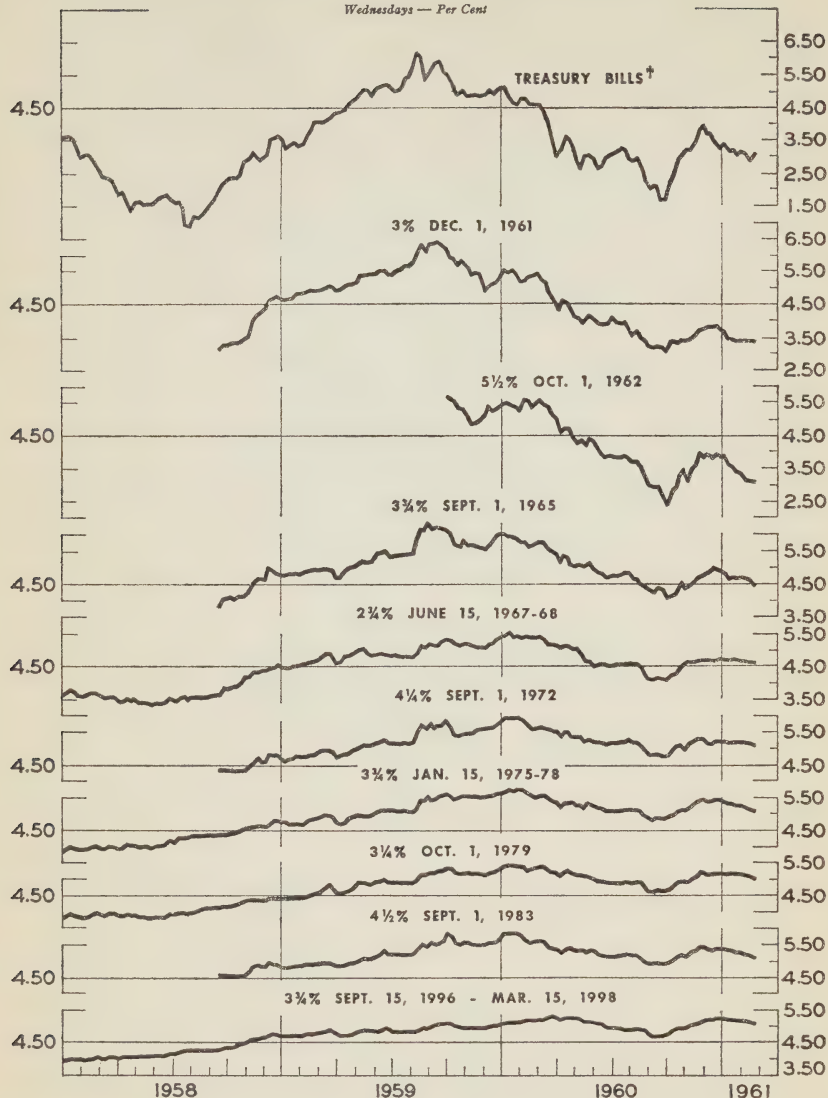
Interest rates in the United States also declined from early in 1960 until September and then rose gradually in the fourth quarter. The spread between yields on long-term Government bonds in Canada and the United States, which had increased in the latter part of 1959, tended to decline during the first nine months of 1960. In the fourth quarter yields on long-term Government bonds in Canada increased more than in the United States so that the spread in yields widened again.

The prime commercial loan rate charged by the chartered banks, which was raised from $5\frac{1}{4}$ per cent to $5\frac{1}{2}$ per cent in March 1959 and again to $5\frac{3}{4}$ per cent in April 1959, has remained unchanged since that date. Interest rates paid by trust companies on guaranteed investment certificates, by loan companies on debentures, and by finance companies and other corporations on short-term paper declined from late 1959 to September 1960 and have levelled off or increased since that time.

Trends in interest rates during 1958, 1959 and 1960 are shown in the table on page 95 and the charts on the facing page and page 96.

GOVERNMENT SECURITY YIELDS

Wednesdays — Per Cent



† 91-day bills. Average rate at weekly tender on Thursday following Wednesday date.

Interest Rates and Yields

(per cent)

	Dec. 31 1958	High in Aug.- Sept. 1959	Dec. 30 1959	High in Jan. 1960	Low in Sept. 1960	High in Nov.- Dec. 1960	Dec. 23 1960
Government security yields							
91-day treasury bills ⁽¹⁾	3.49	6.16	5.12	5.14	1.68	3.95	3.25
3% Dec. 1, 1961	4.69	6.42	5.27	5.51	3.06	3.83	3.75
3¾% Sept. 1, 1965	4.74	6.22	6.00	6.00	4.07	4.99	4.87
2¾% June 15, 1967-68	4.48	5.30	5.37	5.55	4.09	4.74	4.74
4¼% Sept. 1, 1972	4.70	5.82	5.77	5.91	4.76	5.27	5.22
3¾% Jan. 15, 1975-78	4.76	5.61	5.60	5.76	4.81	5.41	5.41
3¼% Oct. 1, 1979	4.42	5.30	5.30	5.42	4.63	5.21	5.19
4½% Sept. 1, 1983	4.81	5.81	5.71	5.80	4.88	5.46	5.37
Other long-term bond yields⁽²⁾							
10 provincials	5.14	6.19	6.12	6.19	5.28	5.68	5.68
10 municipals	5.38	6.60	6.60	6.60	5.61	5.97	5.97
10 public utilities	5.14	6.01	6.04	6.17	5.29	5.54	5.45
10 industrials	5.22	6.05	6.14	6.22	5.24	5.62	5.61
40 bond average	5.22	6.21	6.23	6.30	5.35	5.68	5.68
Common stock yields⁽³⁾							
64 industrials	3.79	3.98	3.95	4.46 ⁽⁴⁾	4.26	4.52	4.24
Chartered bank prime loan rate . . .	5¼	5¾	5¾	5¾	5¾	5¾	5¾
Savings deposits							
Chartered banks	2¾	2¾	2¾	2¾	2¾	2¾	2¾
Trust companies (typical rate) . .	3¼	3½	3½	3½	3½	3½	3½
Trust companies investment cer- tificates (typical 1 year rate) . .	4	5½-5¾	5½	5½	4½	4½	4½

(1) Average rate at tender closest to date shown.

(2) Source: McLeod, Young, Weir & Company Limited. Figures shown refer to the first business day of the month closest to the date shown.

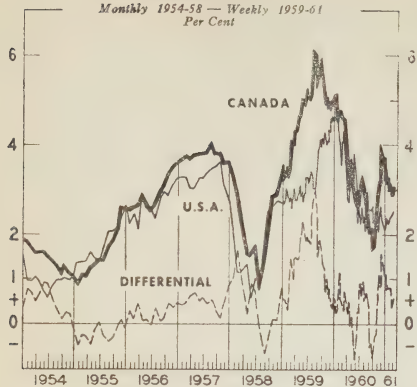
(3) Source: Moss, Lawson & Company Limited in conjunction with the Toronto Stock Exchange. Figures shown refer to the Friday dates closest to the date shown.

(4) High yield reached on March 11, 1960. A second high of 4.54% was reached on Aug. 5, 1960.

INTEREST RATES - CANADA AND UNITED STATES

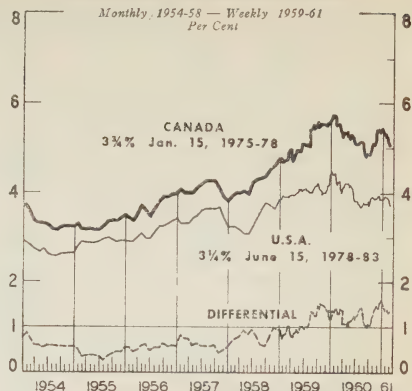
TREASURY BILLS

Monthly 1954-58 — Weekly 1959-61
Per Cent



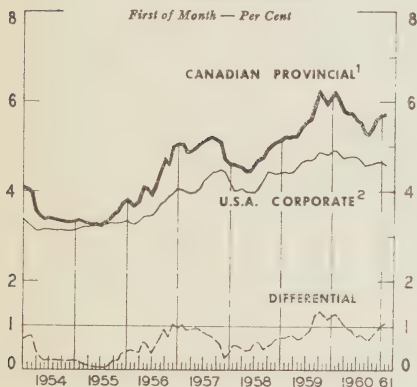
LONG-TERM GOVERNMENT BONDS

Monthly 1954-58 — Weekly 1959-61
Per Cent



CANADIAN PROVINCIAL AND U.S.A. CORPORATE BONDS

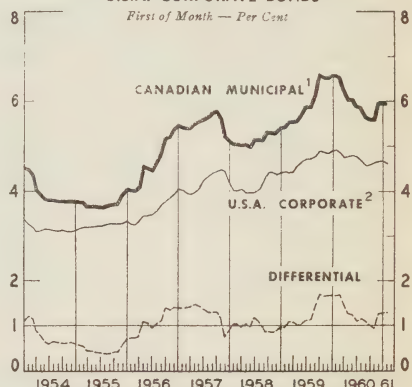
First of Month — Per Cent



1. Source: McLeod, Young, Weir & Co. Ltd.
2. Source: Moody's Investors Service.

CANADIAN MUNICIPAL AND U.S.A. CORPORATE BONDS

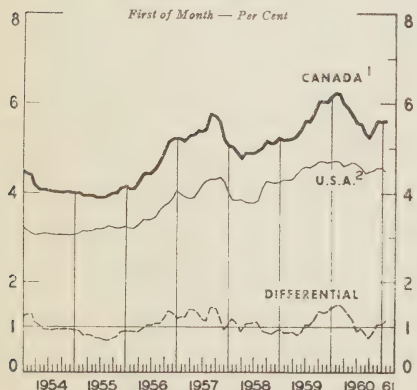
First of Month — Per Cent



1. Source: McLeod, Young, Weir & Co. Ltd.
2. Source: Moody's Investors Service.

INDUSTRIAL BONDS

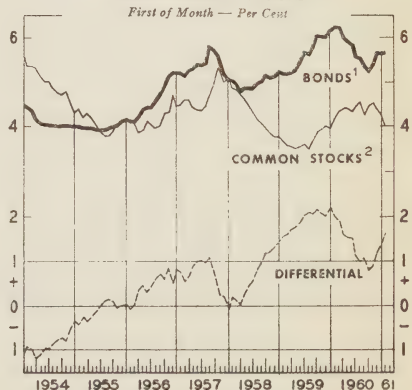
First of Month — Per Cent



1. Source: McLeod, Young, Weir & Co. Ltd.
2. Source: Moody's Investors Service.

CANADIAN INDUSTRIAL BONDS AND COMMON STOCKS

First of Month — Per Cent



1. Source: McLeod, Young, Weir & Co. Ltd.
2. Source: Moss, Lawson & Co. Ltd. in conjunction with the Toronto Stock Exchange.

Public Debt Operations. A summary of the changes in Government of Canada direct and guaranteed securities outstanding during 1960 is shown in the table below. The details of new issues and retirements of Government bonds in 1960 are summarized in the table on pages 100 and 101.

On Jan. 4, 1960 a new issue of \$100 million of 5½ per cent Government-guaranteed C.N.R. bonds maturing Jan. 1, 1985 and yielding 5.86 per cent was delivered. This issue was offered on Nov. 30, 1959 together with a \$200 million issue of 5½ per cent Government-guaranteed C.N.R. bonds maturing Dec. 15, 1964 which was delivered on Dec. 15, 1959. The C.N.R. applied the cash proceeds of these issues to the repayment of interest-bearing capital advances from the Government.

On Feb. 1 the Government offered two new issues of 5½ per cent short-term bonds dated Feb. 15 which were optionally exchangeable into long-term bonds. The first was a cash offering of

**Summary of Changes in Government of Canada
Direct and Guaranteed Securities Outstanding**

(par values, millions of dollars)

	As at Dec. 31, 1960	Increase or decrease (-) during:					
		1960				Year 1960	Year 1959
		1Q	2Q	3Q	4Q		
Treasury bills							
91 day bills	1,235	—	-75	-65	—	-140	-120
182 day bills	650	48	55	65	20	188	462
Special issues ⁽¹⁾	100	—	-140	—	—	-140	240
Total	1,985	48	-160	—	20	-92	582
Market bonds							
Direct issues payable in							
Canadian dollars	10,297	100	93	—	-223	-30	-344
United States dollars	150	—	—	—	—	—	-150
£ sterling	19	—	—	—	—	—	-3
Guaranteed issues	1,676	100	—	—	242	342	311
Total	12,142	200	93	—	19	312	-186
Canada Savings Bonds	3,594	-69	-84	-57	592	382	317
Matured and outstanding market issues	25	-3	15	-7	5	10	5
Total	17,747	176	-136	-64	637	612	718

(1) Issues maturing June 10, 1960 or June 2, 1961.

\$100 million of bonds maturing Oct. 1, 1962, with an option to the holder to be exercised on or before June 30, 1962 to exchange into an equal par value of $5\frac{1}{2}$ per cent bonds maturing Oct. 1, 1975, priced to yield 5.70 per cent to Oct. 1, 1962 or 5.55 per cent if exchanged and held to Oct. 1, 1975. This offering was an addition to an outstanding issue and brought the total amount of this maturity to \$350 million. The cash proceeds were to be used for general purposes of the Government. The second part of the offering was \$200 million of Government bonds due Apr. 1, 1963 with an option to the holder to be exercised on or before Dec. 31, 1962 to exchange into an equal par value of $5\frac{1}{2}$ per cent bonds maturing Apr. 1, 1976, priced to yield 5.76 per cent to Apr. 1, 1963 or 5.57 per cent if exchanged and held to Apr. 1, 1976. This maturity was offered only in exchange for an equal par value of $2\frac{3}{4}$ per cent bonds due Apr. 1, 1960 valued for exchange purposes at \$101.00 including all accrued interest to Feb. 15, 1960.

On Mar. 14 plans were announced for the refunding of the outstanding balance of \$329 million of the $2\frac{3}{4}$ per cent bonds maturing Apr. 1, 1960. The Bank of Canada agreed to acquire, in partial refunding of its holdings of the maturing issue, \$129 million of $5\frac{1}{2}$ per cent bonds due Apr. 1, 1963 optionally convertible into $5\frac{1}{2}$ per cent bonds due Apr. 1, 1976, and \$200 million of new bonds dated Apr. 1 were offered for public distribution. These new bonds consisted of two maturities. The first, allotted in an amount of \$80 million, consisted of $5\frac{1}{2}$ per cent bonds due Apr. 1, 1969. The second, allotted in an amount of \$120 million, consisted of $5\frac{1}{2}$ per cent bonds due Apr. 1, 1963 exchangeable at the option of the holder, on or before Dec. 31, 1962, into an equal par value of $5\frac{1}{2}$ per cent bonds due Apr. 1, 1976. This latter offering was an addition to the \$129 million of bonds of this maturity acquired by the Bank of Canada, and the \$200 million issue dated Feb. 15, 1960, bringing the total outstanding to \$449 million. A feature of this offering was the sale of a portion of the new issues to primary distributors at competitive tender. Firm offerings totalling \$75 million in each maturity were made to primary distributors at an issue price of 97.75 per cent for the 1969 maturity to yield 5.82 per cent and at an issue price of 99.75 per cent for the 1963 maturity to yield 5.59 per cent for three years,

or 5.52 per cent if exchanged into the 1976 maturity. In addition to the firm offerings accepted by primary distributors and sales to Government investment accounts, \$5 million of the 1969 maturity was sold to primary distributors at an average tender price of 98.25 per cent and \$44 million of the 1963 maturity was sold at an average tender price of 100.23 per cent.

On May 16 plans were announced for the advance refunding of \$240 million of treasury bills maturing June 10 through the sale of new issues of Government bonds and treasury bills. The new issues dated June 1 consisted of \$90 million of 4½ per cent Government bonds maturing Dec. 1, 1962 and \$50 million of 366 day treasury bills maturing June 2, 1961, both offered to primary distributors at competitive tender. The Bank of Canada agreed to acquire an additional amount of \$50 million of each issue at the average prices of accepted tenders from primary distributors. Payment for both issues could be made either in cash or by surrender of treasury bills maturing June 10 and valued for this purpose at 99.95 per cent. The average price of successful tenders on the 4½ per cent bonds was 99.91 per cent to yield 4.29 per cent and on the treasury bills was 96.71 per cent to yield 3.39 per cent. The cash proceeds of \$112 million from this issue were used for redemption of treasury bills maturing June 10 which had not been presented in payment for the new issue. On June 1 the residual amount of outstanding Sixth Victory Loan bonds, amounting to \$47 million, matured.

One of the features of the 5½ per cent Government bonds dated Oct. 1, 1959 and maturing Oct. 1, 1960 was an option to the holder, up to June 30, 1960, of exchanging these bonds for an equal par value of 5½ per cent bonds due Oct. 1, 1975. By June 30 \$121 million of the total issue of \$135 million had been exchanged. The remaining \$14 million matured on Oct. 1.

On Sept. 12 a new issue of \$250 million of Government-guaranteed C.N.R. bonds dated Oct. 1 was offered. The issue consisted of \$75 million of 4½ per cent bonds due Apr. 1, 1967 priced to yield 4.68 per cent and \$175 million of 5 per cent bonds due Oct. 1, 1987 priced to yield 5.17 per cent. The cash proceeds were used

by the C.N.R. to repay interest-bearing capital advances from the Government of Canada and for capital expenditures of the Company.

On Nov. 28 the Government announced a new issue of \$600 million of short-term Government bonds dated Dec. 15, 1960 to provide for the refinancing of \$400 million of the \$609 million of 3 per cent Government bonds maturing Dec. 15, 1960 and the partial advance refunding of \$200 million of 3 per cent Government bonds due Dec. 1, 1961. The Government announced that

New Issues, Retirements and Conversions of Government of Canada Direct and Guaranteed Bonds, 1960

Date of Issue or Redemption	Type of Security	Amount (millions of dollars)	
		New Issue	Retirement
Jan. 1	C.N.R.—Govt. Gtd.	100	
Feb. 15	Govt. Loan ⁽¹⁾⁽²⁾	100	
Feb. 15	Govt. Loan ⁽³⁾	200	
Feb. 15	Govt. Loan ⁽⁴⁾		200
Apr. 1	Govt. Loan ⁽¹⁾⁽⁶⁾	249	
Apr. 1	Govt. Loan	80	
Apr. 1	Govt. Loan		329
June 1	Govt. Loan ⁽⁵⁾	140	
June 1	Sixth Victory Loan		47
June 30 ⁽¹¹⁾	Govt. Loan	121	
June 30 ⁽¹¹⁾	Govt. Loan ⁽⁴⁾		121
Oct. 1	Govt. Loan		14
Oct. 1	C.N.R.—Govt. Gtd.	75	
Oct. 1	C.N.R.—Govt. Gtd.	175	
Dec. 15	Govt. Loan	300	
Dec. 15	Govt. Loan	300	
Dec. 15	Govt. Loan		609
Dec. 15	Govt. Conversion Loan ⁽⁴⁾		200
	Canada Savings Bonds	947	564
	Other retirements		8
		<u>2,787</u>	<u>2,092</u>

(1) An addition to an outstanding bond issue.

(2) Exchangeable at the option of the holder on or before June 30, 1962 into an equal par value of 5½% non-callable bonds due Oct. 1, 1975, yielding about 5.55% for 15 years, 7½ months.

(3) Exchangeable at the option of the holder on or before Dec. 31, 1962 into an equal par value of 5½% non-callable bonds due Apr. 1, 1976, yielding about 5.57% for 16 years, 1½ months.

(4) Conversion of part of issue.

(5) Includes accrued interest.

(6) Exchangeable at the option of the holder on or before Dec. 31, 1962 into an equal par value of 5½% non-callable bonds due Apr. 1, 1976, yielding about 5.52% for 16 years.

it would retire \$209 million of the maturing issue, of which \$100 million was already held by its Securities Investment Account and \$109 million would be paid off out of cash balances. An amount of \$200 million of the new issue was offered to primary distributors. The Bank of Canada agreed to exchange \$200 million of its holdings of the maturing issue for bonds of the new issue, and also \$200 million of its holdings of the Dec. 1, 1961 maturity for bonds of the new issue. The new issue consisted of two maturities: \$300 million of 3 per cent bonds due June 15, 1962 yielding 3.86

<u>Currency of Payment</u>	<u>Coupon Rate %</u>	<u>Date of Maturity</u>	<u>Earliest Call Date</u>	<u>Issue or Conversion Price</u>	<u>Yield %</u>
C	5 $\frac{3}{4}$	Jan. 1/85	NC	98.50	5.86
C	5 $\frac{1}{2}$	Oct. 1/62	NC	99.50	5.70
C	5 $\frac{1}{2}$	Apr. 1/63	NC	99.25	5.76
C	2 $\frac{3}{4}$	Apr. 1/60	NC	101.00 ⁽⁵⁾	
C	5 $\frac{1}{2}$	Apr. 1/63	NC	99.75 ⁽⁷⁾	5.59
C	5 $\frac{1}{2}$	Apr. 1/69	NC	97.75 ⁽⁸⁾	5.82
C	2 $\frac{3}{4}$	Apr. 1/60	NC		
C	4 $\frac{1}{4}$	Dec. 1/62	NC	99.91 ⁽¹⁰⁾	4.29
C	3	June 1/60	June 1/57		
C	5 $\frac{1}{2}$	Oct. 1/75	NC		
C	5 $\frac{1}{2}$	Oct. 1/60	NC		
C	5 $\frac{1}{2}$	Oct. 1/60	NC		
C	4 $\frac{1}{2}$	Apr. 1/67	NC	99.00	4.68
C	5	Oct. 1/87	NC	97.50	5.17
C	3	June 15/62	NC	98.75	3.86
C	4	Dec. 15/63	NC	98.75	4.45
C	3	Dec. 15/60	NC		
C	3	Dec. 1/61	NC		

(7) \$205 million was sold at this price. The remaining \$44 million was sold to primary distributors at competitive tender at an average price of 100.23%.

(8) \$75 million was sold at this price. The remaining \$5 million was sold to primary distributors at competitive tender at an average price of 98.25%.

(9) Advance refunding of part of \$240 million of treasury bills maturing June 10, 1960. The remainder was refunded by a new issue of \$100 million of 366 day bills maturing June 2, 1961.

(10) Average price of successful tenders.

(11) On or before June 30, 1960.

per cent, of which \$120 million went to primary distributors and \$180 million was taken by the Bank of Canada, and \$300 million of 4 per cent bonds due Dec. 15, 1963 yielding 4.45 per cent of which \$80 million went to primary distributors and \$220 million was taken by the Bank of Canada.

The terms of the 1960 series of Canada Savings Bonds were announced on Sept. 19. The new bonds, dated Nov. 1, 1960, will mature in 10 years and provide an average yield of 4.71 per cent if held to maturity. Interest payable annually is graduated to provide 4 per cent the first year, 4½ per cent the second year, 4½ per cent the third, 4½ per cent the fourth, and 5 per cent for each of the remaining six years. The limit for holdings in any one name was set at \$10,000. On Dec. 31 total sales of this issue amounted to \$826 million compared with sales of \$1,416 million of the 1959 series and \$844 million of the 1958 series during the comparable periods each year. However redemptions of outstanding Canada Savings Bonds were much lower in 1960 than in recent years so that the net increase in Canada Savings Bonds outstanding during the fourth quarter of 1960 was \$592 million compared with \$550 million in 1959 and \$508 million in 1958. Total sales during the year 1960 amounted to \$947 million while total redemptions and maturities of all series amounted to \$564 million so that the net increase during the year was \$382 million. In 1959 the net increase during the year was \$317 million and in 1958 was \$246 million. Payroll sales of the 1960 series were \$216 million compared to \$219 million of the 1959 series and \$207 million of the 1958 series. The total amount of Canada Savings Bonds outstanding at the end of 1960 was \$3,594 million or 20.3 per cent of the Government's total direct and guaranteed securities outstanding and 32.4 per cent of that part of the debt which was held by the general public.

During the year the average term to maturity of market issues of Government securities outstanding shortened by one month and stood at 9 years 5 months at Dec. 31. The average term to maturity of the general public's holdings of market issues increased by 8 months and stood at 11 years 6 months at the end of the year. A table showing the classification by term to maturity of the total of Government securities outstanding and of the general public's holdings appears on the facing page.

Government of Canada Direct and Guaranteed Securities Classified by Term to Maturity

(par values, millions of dollars)

	As at Dec. 31, 1960	Increase or decrease (-) during:					
		1960				Year 1960	Year 1959
		1Q	2Q	3Q	4Q		
Total Amount Outstanding							
Treasury bills	1,985	48	-160	—	20	-92	582
Other market issues							
2 years and under	2,251	-115	-482	-7	-28	-632	549
Over 2 and up to 5 years	2,806	212	388	1,267	-191	1,676	-876
Over 5 and up to 10 years	1,160	—	280	-1,267	72	-914	128
Over 10 years	5,950	100	-78	—	171	193	18
Total market issues							
(bonds and treasury bills)	14,153	245	-52	-7	45	230	401
Canada Savings Bonds	3,594	-69	-84	-57	592	382	317
Total	17,747	176	-136	-64	637	612	718
Average maturity of							
market issues	9 yr. 5 mo.	-2 mo.	+1 mo.	-3 mo.	+2 mo.	-1 mo.	-9 mo.
Amount Held by General Public							
Treasury bills	549	-21	-143	-104	61	-206	341
Other market issues							
2 years and under	1,172	44	-430	-172	105	-454	606
Over 2 and up to 5 years	1,200	153	234	465	-323	530	258
Over 5 and up to 10 years	559	42	147	-482	14	-279	172
Over 10 years	4,005	97	105	17	164	382	64
Total market issues							
(bonds and treasury bills)	7,485	316	-88	-277	22	-28	1,440
Canada Savings Bonds	3,594	-69	-84	-57	592	382	317
Total	11,080	247	-172	-334	614	355	1,757
Average maturity of							
market issues	11 yr. 6 mo.	-3 mo.	+4 mo.	+2 mo.	+4 mo.	+8 mo.	-2yr. 6 mo.

BANK OF CANADA • STATEMENT

A S S E T S

	<u>1960</u>	<u>1959</u>
Foreign exchange*		
Pounds sterling and U.S.A. dollars	\$ 54,325,052	\$ 41,030,477
Other currencies	165,209	146,420
	<u>\$ 54,490,261</u>	<u>\$ 41,176,897</u>
Cheques on other banks	\$ 149,945,973	\$ 145,547,390
Accrued interest on investments	\$ 24,598,760	\$ 25,995,824
Investments — at amortized values		
Treasury bills of Canada	\$ 404,354,058	\$ 305,853,111
Other securities issued or guaran- teed by Canada maturing with- in two years	353,433,782	514,536,500
Other securities issued or guaran- teed by Canada not maturing within two years	1,931,943,841	1,800,242,047
Debentures issued by Industrial Development Bank	64,378,939	58,607,742
Other securities — U.S.A. Government*	24,357,001	18,522,311
	<u>\$ 2,778,467,621</u>	<u>\$ 2,697,761,711</u>
Industrial Development Bank		
Total share capital at cost	\$ 25,000,000	\$ 25,000,000
Bank premises		
Land, buildings and equipment— at cost less accumulated depre- ciation	\$ 11,470,473	\$ 10,878,656
Net balance of Government of Canada payments and collections in process of settlement		\$ 21,238,081
Other assets	\$ 471,031	\$ 493,308
	<u>\$ 3,044,444,119</u>	<u>\$ 2,968,091,867</u>

*Foreign currencies converted to Canadian dollars at year-end closing rates.

J. E. COYNE, *Governor*
Ottawa, January 30, 1961

A. J. NORTON, *Chief Accountant*

OF ASSETS AND LIABILITIES

STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 1960

with comparative figures at December 31, 1959)

LIABILITIES

	<u>1960</u>	<u>1959</u>
Capital paid up . . .	\$ 5,000,000	\$ 5,000,000
Rest fund . . .	\$ 25,000,000	\$ 25,000,000
Notes in circulation . . .	\$ 2,061,743,386	\$ 2,020,525,198
Deposits		
Government of Canada . . .	\$ 35,721,014	\$ 45,587,773
Chartered banks . . .	662,584,610	636,981,802
Other . . .	33,278,175	34,789,621
	<u>\$ 731,583,799</u>	<u>\$ 717,359,196</u>
Liabilities payable in pounds sterling, U.S.A. dollars and other foreign currencies*		
To Government of Canada . . .	\$ 59,573,053	\$ 42,251,227
To Others . . .	9,036,950	7,768,089
	<u>\$ 68,610,003</u>	<u>\$ 50,019,316</u>
Bank of Canada cheques outstanding . . .	\$ 149,194,297	\$ 149,191,317
Net balance of Government of Canada collections and payments in process of settlement	<u>\$ 2,026,977</u>	
Other liabilities . . .	\$ 1,285,657	\$ 996,840
	<u>\$ 3,044,444,119</u>	<u>\$ 2,968,091,867</u>

Auditors' Report • We have made an examination of the statement of assets and liabilities of the Bank of Canada as at December 31, 1960 and have received all the information and explanations we have required. We report that, in our opinion, the above statement correctly sets forth the position of the Bank at December 31, 1960 according to the best of our information and as shown by the books of the Bank.

ROSAIRE COURTOIS, C.A.
of Courtois, Fredette & Co.

W. R. KAY, C.A.
of Fred Page Higgins & Company

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 1960
(with comparative figures for the year ended December 31, 1959)

	<u>1960</u>	<u>1959</u>
Profit for the year	<u>\$90,175,489</u>	<u>\$74,011,728</u>
 Paid to the Receiver General of Canada for credit of the consolidated revenue fund	 <u><u>\$90,175,489</u></u>	 <u><u>\$74,011,728</u></u>

BOARD OF DIRECTORS



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Bank of Canada, Ottawa
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